British economy perks up

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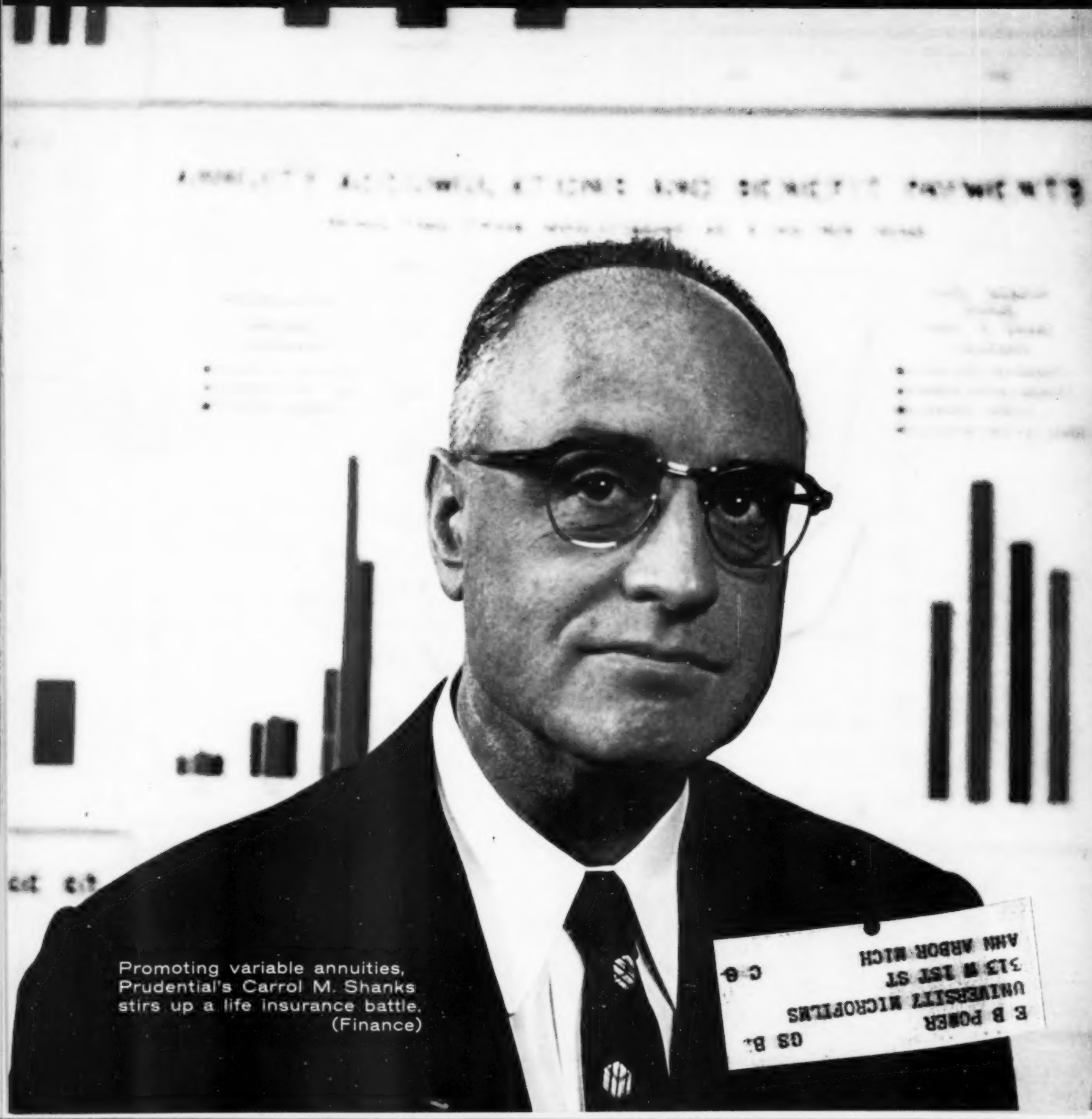
BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JUNE 28, 1958



Promoting variable annuities, Prudential's Carrol M. Shanks stirs up a life insurance battle. (Finance)

IN BUSINESS THIS WEEK June 28, 1958

GENERAL BUSINESS

THE DEPARTMENTS

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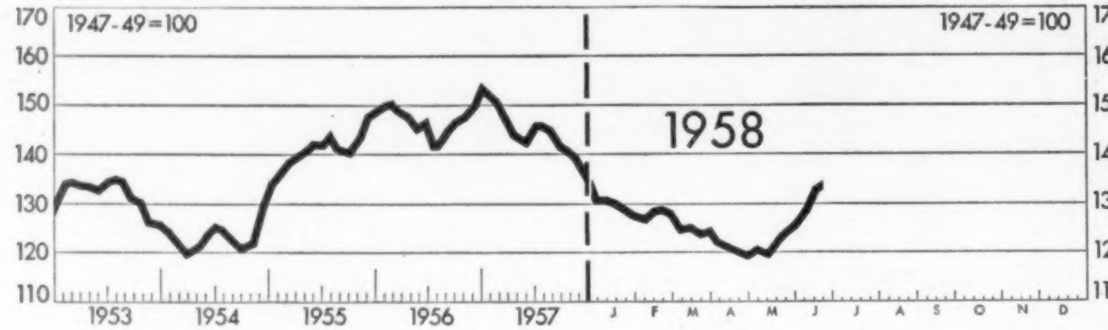
NUMBER 1504

FIGURES OF THE WEEK



	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	91.6	147.9	125.2	†133.3	*134.3
PRODUCTION					
Steel ingot (thous. of tons)	1,281	2,150	1,567	†1,751	1,685
Automobiles and trucks	62,880	151,150	112,909	†105,566	108,584
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.)	$17,083	$67,886	$76,169	$80,033	$82,604
Electric power (millions of kilowatt-hours)	4,238	12,337	11,316	12,109	11,941
Crude oil and condensate (daily av., thous. of bbls.)	4,751	7,238	6,256	6,335	6,345
Bituminous coal (daily av., thous. of tons)	1,745	1,687	1,212	†1,296	1,395
Paperboard (tons)	167,269	275,348	259,071	290,704	270,117
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	82	68	57	58	58
Carloadings: all others (daily av., thous. of cars)	53	56	37	44	46
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	139	126	135	138
Business failures (Dun & Bradstreet, number)	22	241	337	254	290
PRICES					
Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	424.2	403.3	399.7	398.9
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	92.9	81.3	81.6	82.9
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	84.4	92.9	91.1	90.9
Print cloth (spot and nearby, yd.)	17.5¢	17.9¢	17.3¢	17.4¢	17.4¢
Finished steel, index (BLS, 1947-49 = 100)	††76.4	174.3	181.6	†181.5	181.5
Scrap steel composite (Iron Age, ton)	$20.27	$54.83	$35.33	$35.17	$35.17
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	29.240¢	24.670¢	25.220¢	25.205¢
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.17	$2.34	$1.98	$1.94
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	33.98¢	34.76¢	34.80¢	34.85¢
Wool tops (Boston, lb.)	$1.51	$2.22	#	$1.65	$1.65
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	47.12	43.83	45.09	44.66
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	4.67%	4.61%	4.54%	4.54%
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾-1%	3⅞%	1⅝%	1½%	1½%
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††45,820	56,276	54,671	57,100	57,434
Total loans and investments, reporting member banks	††71,916	87,670	91,803	93,534	95,988
Commercial and agricultural loans, reporting member banks	††9,299	32,463	29,928	29,790	30,373
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	25,633	30,856	31,216	32,399
Total federal reserve credit outstanding	23,888	25,424	25,016	25,440	25,939

MONTHLY FIGURES OF THE WEEK

		1946 Average	Year Ago	Month Ago	Latest Month
Cost of living (U. S. Dept. of Labor BLS, 1947-49 = 100)	**May**	83.4	119.6	123.5	123.6
McGraw-Hill Indexes of New Orders (1950 = 100)					
New orders for machinery, except electrical (seasonally adjusted)	**May**	N.A.	143	134	129
Construction & mining machinery	**May**	N.A.	145	160	181
Engines & turbines	**May**	N.A.	151	121	92
Pumps & compressors	**May**	N.A.	180	150	189
Metalworking machinery	**May**	N.A.	154	78	80
Other industrial machinery	**May**	N.A.	139	140	130
Office equipment	**May**	N.A.	181	171	171
New contracts for industrial building	**May**	N.A.	143	79	87
Imports (in millions)	**March**	$412	$1,133	$962	$1,086

** Preliminary, week ended June 21, 1958.*
† Revised.
†† Estimate.
*** Ten designated markets, middling 15/16 in.*
§ Date for 'Latest Week' on each series on request.
 # Insufficient trading to establish a price.
N.A.—not available at press time.

THE PICTURES—Cover—Herb Kratovil; 25—Joan Sydlow, 28, 29—Cal Bernstein; 34—Carroll Seghers; 45—W.W.; 60—U.P.I.; 70, 71—Mike Shea; 80—Proler Steel Corp.; 109—Plasma Flame Corp.; 110—(top) Herb Kratovil, (bot. lt.) College Retirement Equities Fund, (bot. rt.) Fortune; 111—(top) U.P.I.; (cen.) Robert Phillips, (bot.) W.W.

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READERS REPORT

Too Many Cry Babies

Dear Sir:

I am so tired of reading the "cry baby" reports of business around the country and the utter surrender of manufacturer and retailer alike to the lame brain theory that only "Old John Consumer" can save the economy by continuing to keep up his spending; while all this talk is going on, most folks in business are living off their inventories and not placing any forward orders, except for items that they are in dire need of. . . .

Why don't all of us in trade show our faith in the country and its future by placing orders at once, with all of our suppliers, to take care of our normal next three months needs. I am sure that this would show good faith on our part and "Old John Consumer" would not have to drag the whole load all by himself; and most of us would regain some of our lost self-respect and get out and hustle in the traditional good old American way. Me, I'm just a small town retailer, working every day and practicing what I preach, buying and selling . . . every day. You can't do business from an empty wagon.

HENRY B. GOLDSMITH
PRESIDENT
HENRY GOLDSMITH & CO., INC.
NEW BRITAIN, CONN.

Shot at the Moon

Dear Sir:

After reading Why the Moon's a Key Spot [BW—Apr.12'58,p45], I cannot escape the conclusion that earthmen have already assumed that the moon belongs to them, just as in the days following the discovery of America the Europeans assumed that this land belonged to them. The hurling of an "explosive charge" at the moon is freely advocated. The idea that the moon may be inhabited by some form of life is completely disregarded. "Impossible" say our astronomers peering through their insignificant little telescopes. "Improbable" say our biologists ignoring the fact that life has been found miles below the ocean's surface and miles above the tree tops. "Not a factor" say our military men as they fuss with their obsolete battleships and airplanes. Well, my thought is this. If we are foolish enough to fire an atomic war-

head on the surface of the moon, it may well be that our first flag-bearing explorers are greeted by some very indignant "natives" armed with something a bit more effective than bows and arrows.

"HUMAN" ITERIAN
PITTSBURGH, PA.

Controlling Factor

Dear Sir:

Re: Workers Vote for 5-Day Week Even If It Means a 20% Layoff [BW—Apr.12'58,p135]. The layoff vote at Westinghouse, like others you have reported, reminds one of the situation in Cyprus, where Greeks outnumber Turks and would control any plebiscite. Thus anything less than a 50% layoff would be controlled by those whose seniority protected them, and whose selfishness paid little heed to the younger coworkers plight. Unemployment pay, of course, mitigates the latter.

From the standpoint of the greatest good to the greatest number (including stockholders, management, and customers) efficiency under each method of reduction ought to determine the choice.

P. S. BARROWS
DEL MAR, CALIF.

Cost-Price Flexibility

Dear Sir:

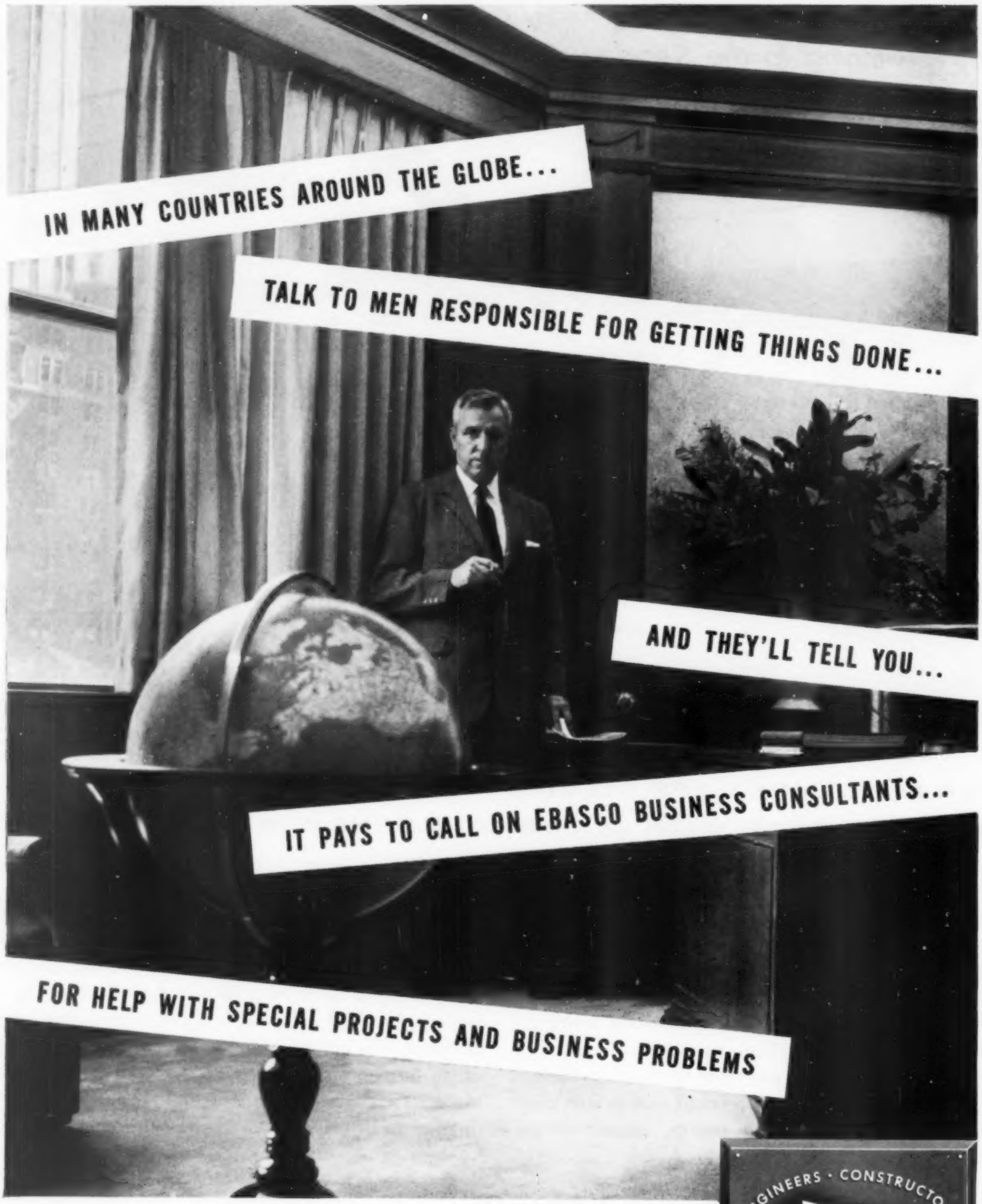
Your penetrating report on the current economic situation [BW—May3'58,p25] reiterates the importance of a basic factor that administration as well as opposition leaders . . . ignore in their recovery plans: the restoration of cost-price flexibility on the downside.

Overcapacity is cited as a depressing factor. Yet "excess" capacity at present prices could be put to work if significant price cuts were made to tap new levels of demand. It is no coincidence that sales and jobs have slumped worst in automobiles, where recent cost and price rises have been sharpest.

Economists point to the rapid fall of costs and prices in 1920-21 and the promptness with which strong recovery followed, in contrast to resistance to such readjustment after 1929, followed by the lingering depression of the 1930s.

Without questioning the value of more immediate measures, I think it high time the government initiated action to restore the cost-price flexibility essential to sound economic growth.

RODNEY R. ADLER
MT. VERNON, N. Y.



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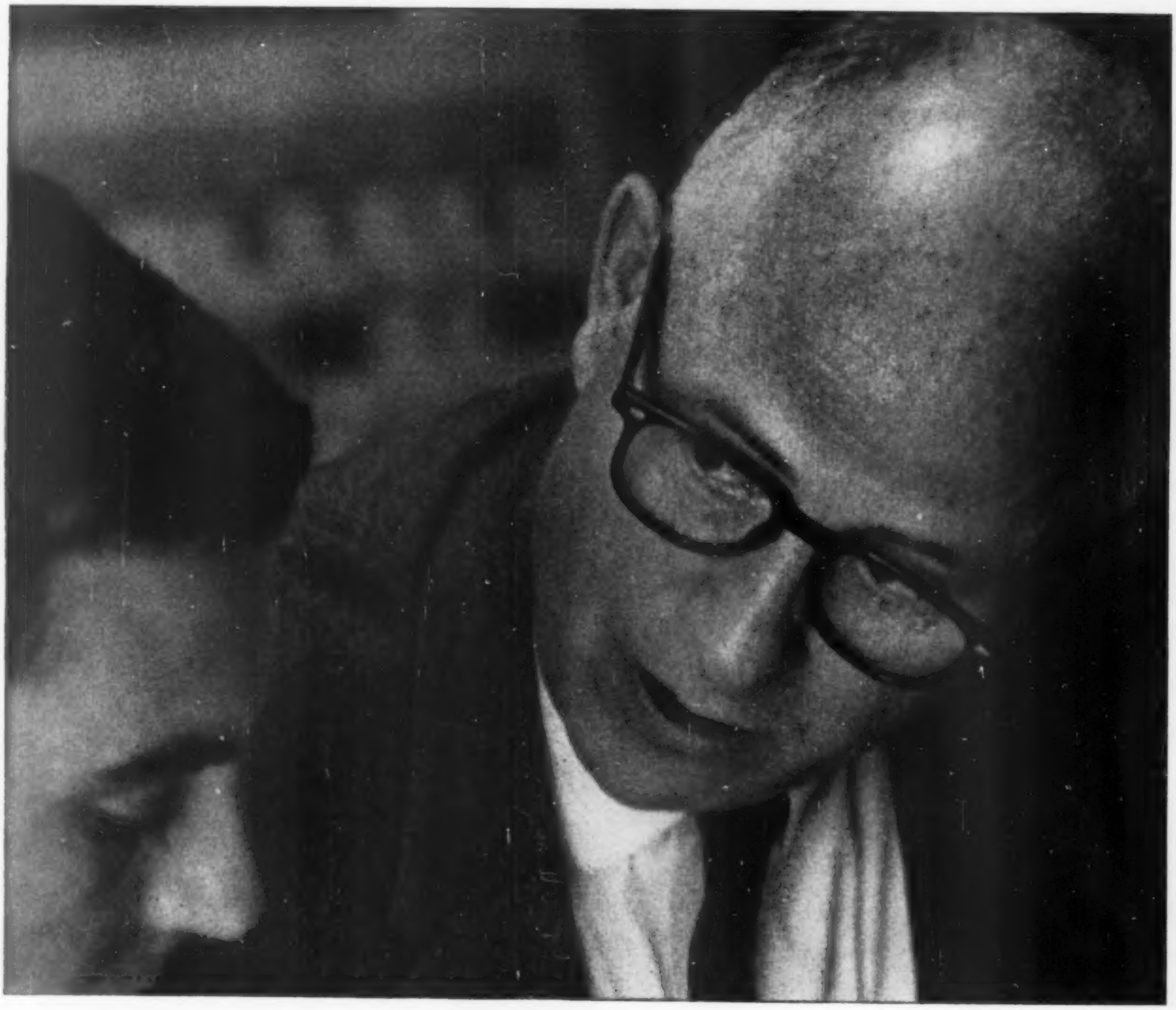
CREATING A NEW WORLD WITH ELECTRONICS... NO. 6

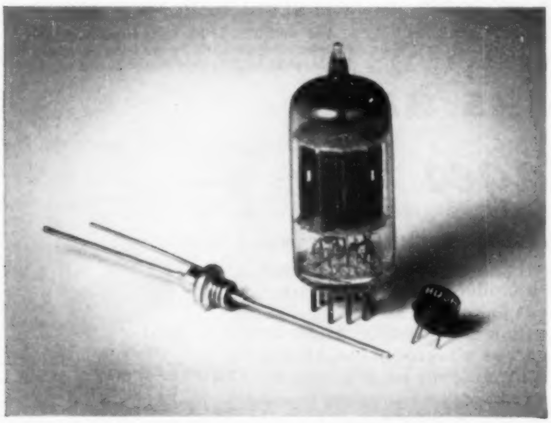
Why all this talk about



transistors?

The tiny transistor is a frequent topic of conversation these days. Consumers are talking about, *and buying,* transistorized radios, hearing aids and other products. Manufacturers are developing new ways to reduce costs with transistorized automation systems. Industrial designers are transistorizing old products to give them new sales appeal and make them more efficient.

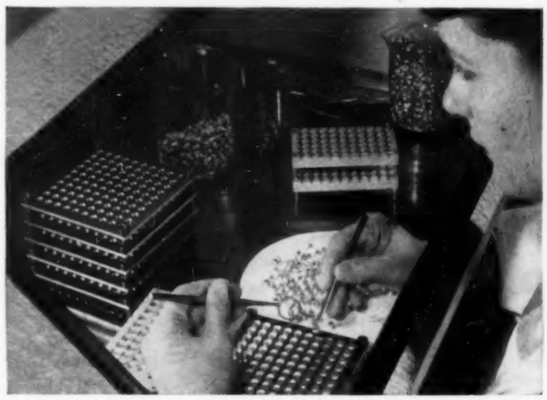
The transistor does its job much better than a vacuum tube many times its size—uses less power, generates almost no heat, and can withstand for long periods of time, shock and vibration that would shatter a vacuum tube in *seconds.*



Either of these small HUGHES *transistors amplifies as much electrical current as the much larger power vacuum tube.*

Hughes transistors were developed to the strict standards and requirements of advanced computers, weapons systems and missiles. Because of that heritage, HUGHES coaxially packaged transistors have a much wider range of application for commercial uses than ordinary transistors. They are more efficient, will withstand more abuse, and are readily adapted to machine assembly methods.

We're mighty proud of HUGHES transistors—which are made to the same strict standards as all HUGHES products. HUGHES transistors are subjected to dozens of test-inspections during manufacture. Reliability is not only *designed* into HUGHES products—it's the "religion" of everybody who works at HUGHES.



Final assembly of HUGHES *transistors at the new semi-conductor manufacturing plant takes place under a glass hood that keeps out dust and moisture.*

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BUSINESS OUTLOOK

BUSINESS WEEK

JUNE 28, 1958

A BUSINESS WEEK SERVICE

Now come the dog days, the summer lull. **Many of the weekly indicators of industrial activity will lose their May-June tone.**

This, as most businessmen well know, is **no cause for despair.**

The figures have to be watched, of course. You need to know **if they are** reflecting anything more than hot weather and vacations.

But it probably will be September before the cat jumps.

—•—

Steel operations already show signs of going into a summer slide.

This relapse has been expected. Plantwide vacations in the metal trades will dull demand more broadly than usual this year.

Then, too, the mild surge of orders to get in ahead of a **possible price increase on July 1** has now run its course.

About the steel price increase: There's talk in Pittsburgh this week that it won't take place on July 1—but will come later. (However, Alan Wood hopefully, if tentatively, posted a price increase for July 7.)

If so, there could be a second round of anticipatory buying.

Steel operations are likely to trace rather a saw-toothed pattern.

We already have had the **runup** from below 50% of capacity to 65%. But output **turned down** this week, indicating July's trend.

At midsummer, the **auto companies will begin buying** for the earlier-than-usual new model introductions. That might prove the psychological moment for the steel industry to increase its prices.

The combination would bring in other buyers—might even cause **a temporary order glut.** If such a bulge in demand should occur, then **another slide in output** would be in the cards for late 1958.

—•—

Nonferrous metals will feel the summer slack in orders along with steel. And their markets are doing nothing to clarify the outlook.

Copper's quick price runup seemed stalled, at least temporarily, this week. Kennecott and Phelps Dodge haven't followed Anaconda's boost, while the custom smelters have backed away from the 26½¢-a-lb. price they had posted to match Anaconda's quotation.

Prices of **lead** and **zinc** continued strong in London at midweek, but this was attributed more to American politics than to basic demand.

Congressional efforts to get a **resumption of zinc, lead, and aluminum stockpiling** were the market mainspring. These moves aim at removal of troublesome above-ground stocks of these metals.

The precedent has been set, of course, in the program for U. S. purchases of 150,000 tons of copper.

—•—

Uneasiness in the commodity markets is emphasized by what traders regard as **Russian "raids."** First it was Soviet dumping of **aluminum,** then **tin.** And the latest mineral reported on Moscow's sales list is **asbestos.** Each offering has upset British markets.

The mood in London, nevertheless, is optimistic. Volume of Russian sales actually is small, and the British feel their plans to revive consumer industries by relaxing purchase curbs will bolster markets.

Lowering of West European central bank rates, steadily expanding as a pattern, should play a part in U. S. business thinking.

In part, the moves are to **offset possible effects of our business recession.** But, more directly, the easier money trend is designed to **encourage plant expansion** and output both for export and home use.

—•—

New orders for machine tools, while nothing to crow about, at least indicate that the volume of incoming business has stabilized.

Month by month, the figures have shown little change so far this year —which is good by comparison with 1957. Moreover, **the rate of cancellations seems definitely to be diminishing.**

Nevertheless, **the industry is finding it necessary to cut production back steadily.** Yet output still is 50% above net new orders.

—•—

Optimists in the **textile industry** now admit that May's brief improvement hasn't held. But they see gains after vacations.

Inventories are believed to be light all along the line. **Fabric prices,** meanwhile, are reported firm, particularly in synthetics.

And there's nothing like firm prices to set off textile restocking.

Improvement, if it's coming, can't be any too soon for **cotton.**

Mill consumption of the fiber has fallen behind the same month of the year before in 23 of the last 24 months (and the long exception recorded a gain so small as to be insignificant).

May, the latest month reported, ran 10% behind 1957 while it was 16% below 1956 and almost 20% lower than the same month in 1953.

The war of the fibers goes on a pace. Just as **nylon drove silk** out of hosiery, **rayon chased cotton** out of the tire cord market. But **nylon** now has pushed in for an estimated 20% of all tire cord.

The real battle looms in original equipment tires for passenger cars. **Nylon prices have been cut** in that fiber's bid for a share, but rayon producers have their own answer, a lighter, stronger filament.

Meanwhile, **wool** has lost fully half the carpet market. Nylon, rayon, and the acrylics—and even cotton—have muscled in.

—•—

Auto production this year won't much more than meet replacement needs—if you take 1956 and 1957 scrappage rates as minimums.

The trade now expects production this year to be 4.2-million cars.

Automotive News estimates that last year's scrappage (with fewer cars on the road then than now) was 4.2-million. And the Automobile Manufacturers' Assn. says more than 4.3-million were junked in 1956, the highest level on record.

BUSINESS
WEEK

JUNE 28, 1958

NUMBER 1504

The Second Half Looks Better

● You can't say that a solid business expansion is already under way, but the contraction has ended.

● Businessmen around the country still take a sober, conservative view of 1958 prospects, though a few expect this summer to mark the upturn.

● But there are several things—for instance, rising consumer incomes—that promise to give the economy a lift.

As 1958 turns the halfway mark, the business contraction has reached what looks like its bottom. The question now is: When can business expect to start climbing again?

A nationwide BUSINESS WEEK survey shows that U.S. businessmen are virtually unanimous in thinking the recovery will be relatively slow to come. Few companies expect a real rise until autumn. Some don't look for the upturn until the middle of next year, or even later. But a few, with new orders starting to arrive in greater volume, think the upturn is already here and will continue vigorously.

The fact that they are a minority doesn't mean that these fortunate few are wrong. They could prove to be right—and the majority of businessmen to be no more prescient about the recovery than they were last year about the recession. But it does mean that the recovery so far simply isn't perceptible to most businesses—at least not perceptible enough to cause them to boost their orders, reverse their reductions of capital spending, recall all the workers they laid off when the recession hit.

• **Second Half Signs**—Various developments are in the cards that will make businessmen feel better in the second half of 1958:

Spending money in the hands of consumers is rising. What economists call disposable personal income fell \$3.2-billion, at annual rates, from the third quarter of 1957 to the first quarter of 1958, but it rose slightly in the second quarter and is predicted to rise in annual rates, about \$3-billion in the third quarter.

Causing this rise: The 10% boost in government salaries, the payment of \$500-million in retroactive pay to civil service workers, and some increase in wage rates generally. These raises will push after-tax personal income in the third quarter to an annual rate of nearly \$305-billion—the highest in U.S. history. Even after adjustment for higher prices, it's only 1% below the third quarter of last year—the peak rate for a quarter.

Since consumer spending depends most directly on personal income after taxes, this income trend almost automatically insures that consumption is going to hold up well in the months ahead. And it may rise significantly, especially if consumers show less anxiety about buying on the cuff, now that they have paid back more than they borrowed.

Continued strength of consumption will help slow the breakneck pace of inventory liquidation that has marked the first half-year. Business liquidated inventories at a \$9-billion rate in the first quarter and roughly the same in the second. From now on, it will be reducing inventories more gradually or even, by yearend, holding them steady. This reversal of the inventory trend will mean a big second-half boost to production.

Government spending will be on the rise, apart from the retroactive pay increases to federal employees. This year, federal, state, and local spending will be up about \$5-billion, and more of the increase will come in the second half than in the first.

The federal spending pattern for the year is a good example of this fact. Spending in the first quarter was actually \$800-million lower than a year earlier, and \$900-million below 1957s average by quarters. So the increases in subsequent quarters to put the year as a whole ahead of 1957 will be substantial.

The increase in the money supply and the cut in interest rates will continue to stimulate borrowing and spending. The shift in monetary policy has already had a marked effect on homebuilding (page 25).

Opposing these factors for recovery are other factors that make up an undeniable inertia or resistance. These must be overcome if the year is to live up to its promise as a real economic turning-point.

I. Thorns on the Rose

Part of the resistance is rooted in psychology—a puritanical feeling among both businessmen and their customers that they got their come-uppance because they had been spending too wildly, expanding too much, indulging themselves too readily. Consumers complained, too, that prices were outrageously high for the quality of the goods being offered, and they could affords to balk when they had already accumulated so many durable items during the boom.

But the two principal curbs on recovery aren't psychological quirks but practical barriers that are only too real. One is excess capacity; the other is the persistence of unemployment at levels not reached in the previous postwar recessions.

• **Excess Capacity**—During the 1955-57 boom, business made plans for expansion that far exceed the market growth that has materialized. As the surplus of capacity became evident, businessmen compensated in their spending plans.

Now that expectations of a sales increase in the next few years have been trimmed back, most industries are convinced that they won't have to spend money on new plant and equipment at anything like the recent record pace—at least for a few years (BW—Apr.19 '58,p31).

In the fourth quarter this year, capital spending will be down to an annual rate of \$29-billion—nearly 20% below last year's \$37-billion.

• **Unemployment**—More than 7% of

the labor force is jobless already. And the labor force is still growing. Another force in keeping unemployment higher than the country is used to (BW–Jun.14'58,p137) may be a sharper rise in labor productivity, as employers struggle to cut costs and increase efficiency and workers struggle to hold onto the jobs they have come to appreciate more poignantly during the slump.

Worry about unemployment, in turn, will discourage the general public from getting soon into the state of euphoria that expressed itself in the consumer spending binge that ended the 1953-54 recession with such a bang.

II. Sober Businessmen

You get a sense of this much more sober national mood when you talk to businessmen around the country. And their view of the economic future has a powerful bearing on plans.

For instance, Morris Pendleton, president of the Proto Tool Co. in Los Angeles, thinks second-half business will be better—"but not a helluva lot better." Pendleton says his own business is doing well because his salesmen are out scrambling. "We discovered that cows don't give milk; you have to take it," he says.

On the other side of the country, in Philadelphia, George E. Lallou, vice-president of the Budd Co., likewise feels better—but not a lot better. Says Lallou: "We have seen nothing that indicates any upturn of the size or character that would indicate the recession is over. On the other hand, we are pretty confident that we have about reached the bottom and are leveling off. This is important. When sales keep sliding down, down, it's all you can do to try to keep up with your costs. When you reach the bottom, even though business just moves sideways, it's a lot different. You can schedule your buying with some confidence, promote products, and even think about expansion for the upswing that is bound to come."

• **Wary of Statistics**—Scores of businessmen between Los Angeles and Philadelphia share Pendleton's and Lallou's mood. Nearly all expect business in the third quarter to be only a trifle less sluggish than it was in spring and early summer. However, none says summer shutdowns will be longer than usual.

Businessmen are widely skeptical about the upturn in the Federal Reserve Board index of production in May (BW–Jun.21'58,p25). It may mark the start of a strong and sustained trend, they admit, but most of them expect production just to mush around during the hot months. The moderate pickup in steel is generally attributed to widespread ordering in anticipation of a price hike.

In Pittsburgh, the steel people themselves don't expect a real lessening of industrial production except for the slow, vacation-bound month of July. After that, the steel people figure they can only go up. Most are thinking in broad terms of a rise from a 55% operating rate in the second quarter to 65% in the third quarter and to 75% in the fourth. Their basic reason: the end of heavy slashing of inventory.

• **Late Spurt**—With few exceptions, businessmen look for an upturn by the end of the third quarter and for a fourth quarter that will be the best slice of the year. The big question in the back of everyone's mind is the auto industry.

Detroit's wretched production rate is bound to get a lift at the turn of the model year—the auto companies must have the new cars built before it can sell them. That means heavier spending for materials and parts, fatter payrolls for a while at least. But after that, if sales don't live up to hopes, many businessmen fear the economy might suffer a relapse.

Expectations for Detroit's 1959 vintage are bolstered by the mop-up of debt on consumers' present cars (BW–Jun.21'58,p28), the sturdy market for used cars, and the dealers' good inventory position.

III. View From the Street

The sober conservatism of businessmen around the country—typified by one Seattle observer's mixed metaphor that "the roof isn't going to fall in, but we're not out of the woods by a good deal"—seems out of harmony with Wall Street's ebullience of the past few weeks.

Despite poor earnings reports and many dividend cuts, stock averages are well above last October's lows and still show no signs of beating a general retreat. Some Wall Street veterans insist that this is a technical rally that will give way to another steep decline. But this is a minority view. Most analysts now are convinced that the market forecasts better business ahead.

• **Doubts Remain**—There's still a lingering concern about "an excess of confidence" in the stock market. Old-timers contend that business will have to show a vigorous increase merely to justify current stock prices. If business doesn't measure up to the expectations of investors, they fear a market decline that would lead in turn to a further slide in business.

This test is a long way off, most Wall Streeters reply, because—as they see it—the market is betting only on a marked pickup sometime next year, not necessarily in 1958.

Seaway Tariffs . . .

. . . get shippers' O.K., but opposition from other interests may set off fireworks at August hearings.

U.S. and Canadian committees assigned to recommend shipping tools on the St. Lawrence Seaway made their long-awaited proposals last week:

	Montreal to Welland Canal	*Welland Canal to Lake Erie*
Assessment per gross registered ton of vessel	*4¢*	*2¢*
plus		
Per ton of general cargo	*90*	*5*
or		
Per ton of bulk cargo	*40*	*2*

Public hearings are scheduled to start in Washington and Ottawa Aug. 6, and are likely to be hot-tempered. East Coast ports and railroads that would lose business to the Seaway call the rates low; Midwestern interests are split; but shippers and ship operators who would use the Seaway call them about right. The committees' job was to set rates high enough to pay off the cost of the Seaway in 50 years, but low enough not to discourage shipping.

• **Pivot**—In figuring the total costs for Seaway cargoes, shippers will have to include the extra time and cost of using the lakes. They will have to weigh this against the cost of sending goods overland to the Atlantic Coast, then having them picked up by ship.

To encourage domestic shipping via the Seaway, the cheaper bulk rate that applies to big volume export-import commodities—such as grain and iron ore—will also apply to general cargo being moved within the U.S. or Canada. It's a question how much this would boost such shipments between, say, Chicago and New York. The extra time might more than offset the toll saving.

• **Volume Index**—When fixed, the rates will determine the volume of shipments on the Seaway. The committees figured on 25-million tons in next year's navigation season, reaching 50-million tons by 1968. They played it conservatively, to be sure of meeting the debt service. The only previous estimates for 1959 traffic were considerably higher. The St. Lawrence Seaway Development Corp. put it at 36.5-million tons; and New York transportation consultant James C. Buckley (for Cleveland) said 30-million tons.

If the proposed rates don't work out, they can be changed later. Canada will collect the tolls and distribute them on the basis on which the two nations are sharing the costs—71% to Canada, 29% to the U.S.

Homebuilding Enjoys a Revival

Easier credit releases the still pent-up demand, chiefly for more living space for growing families formed since the war.

For the past two and a quarter years, homebuilders have been whistling through the sales doldrums, looking ahead with shaky hope to the day when customers would again storm their model homes and lay pen to contract. Quite unexpectedly, that day is here now, despite a general recession and a tapering of the family formation rate.

Today, builders are hurrying plans for new developments to match the revived demand—and the new ability of prospective buyers to come to terms. The volume of housing starts will be increasing in the next few months, and experts in government and industry are raising their estimates for 1958. Instead of a 1.1-million annual rate in the last half (BW—Jun.7'58,p26), they now talk of a 1.2-million rate.

• **Business Basis**—Reasons for the abrupt end of the homebuilders' private recession are beginning to come into focus. If you talk to builders all over the country, as BUSINESS WEEK reporters did this week, you find a variety of signs and symptoms that add up to a few broad generalities:

• The demand was always there. True, the marriage rate is waning (BW—Jun.7'58,p76), but the families already established have continued to outgrow their first postwar homes. They are under increasing pressure to move from two-bedroom houses to homes with three and four bedrooms. At an Atlanta city planning session, utility representatives declared that more families are "doubling up" now than at any time since the 1930s.

• Until the money supply and the mortgage terms eased, families were unable to indulge their need for more housing space. Now they can do it and, even though their job security may be clouded by the general business slump, they can't afford not to.

• Poor homebuilding rates of the past two and a quarter years can be blamed largely on big inventories built through 1955 and left unsold when money tightened beyond the means of thousands of families. These inventories have been cleared.

• The new market is largely among the growing families. People are shopping primarily for more space. They'll take fewer built-in appliances and other selling features. "They are more positive about what they want," says a Houston builder, "but, by the same token, easier to deal with if you give them what they want."

• Builders in some areas are shaving prices as much as 10%, with the help of better deals on materials and better productivity from labor. But the long-term trend of prices is up. And this spurs families to buy now.

"A year ago, they would look but they wanted to wait and see," says a Kansas City builder. "This year they want to buy now, and they're willing to sign a contract." That's partly because of family need, partly because most people assume next year's house will cost more, in the long-range inflationary trend.

• **Who's Buying?**—In localities where the 1950-55 building boom failed to saturate the market, there's still a lively demand for the lowest-cost houses, among young couples who have been renting. In Portland, Ore., for example, the most vigorous call is for homes costing under $10,000; in Memphis, under $12,000; in Detroit, under $14,000. Extension of the VA program, with no downpayment, feeds lending money into this market.

However, far more cities report that today's buyers are in their second or third round of home-shopping. Pittsburgh and Buffalo builders agree that 75% to 80% of their buyers fall in this group; Portland again is an exception, with most buyers entering their first homes.

A third and growing market is pointed out in Richmond and in Boston—the retired couples "whose children are out on their own, who don't need the space they once did, who don't like to keep up a large place any longer, and who drop back to a new but smaller house with a lot of built-in labor-saving gadgets."

Some of these people offer a market for the postwar two-bedroom houses

the younger families are outgrowing.

• **Used Houses**—Before the mass of homeowners can trade up to bigger new houses, however, the problem of the secondhand house will have to be solved more effectively. A family may urgently want or need better housing yet be unable to make a downpayment until it disposes of its present home.

Builders are generally reluctant to take houses in trade—it gives them two selling jobs. Some do accept them, even go through the business of renting them until they are sold; others underwrite sale by the owner, offering him a guaranteed price that he is urged to beat by selling the property directly.

In most cities, purchases of used houses are considered hard to finance—much harder than for new houses. Yet in established areas they outnumber new house deals, in Buffalo by six to one, in Philadelphia by about seven to three. Real estate people in Birmingham say many buyers prefer prewar houses as being better built; in Detroit, used house sales have increased as new house sales have dropped to "the lowest level since 1938."

• **Where They're Buying**—Generally, the used house market is liveliest where local economic conditions shut buyers out of the new house market, as in Detroit, Cleveland, Buffalo. But this isn't always true. In fact, one builder contends that it's axiomatic that new house sales follow used house sales, as in the auto business. It seems to be true in Boston, Memphis, Philadelphia, and New York.

Here's a cross-section of how new homes are selling:

In the Northeast, sales seem to be steady in the New York area (up on Long Island, down in Westchester), up 10% or so in Philadelphia, up 20% in Boston.

In the South, which has been ahead of the national pace all along, sales and starts are off 10% in Atlanta, "doubled" in Birmingham, and "going crazy" in Memphis. In unincorporated parts of Dade County, Fla., building permits in May ran 50% ahead of the year-ago figure, and sales are strong.

In the Southwest, Tulsa is 10% ahead of last year's sales and Houston claims a real boom. Houston had a severe oversupply until this spring, building about 18,000 homes a year from 1950 to 1955, compared with 8,000 or 9,000 last year. "I wouldn't be at all surprised to see 15,000 starts this year," says Robert Clemens, president of the Houston Homebuilders Assn.

In the Midwest, unemployment-stricken Detroit is at rock-bottom, and Cleveland reports the worst sales and lowest record of starts in 10 years. Milwaukee, too, is running behind.

In the Far West, sales are ahead of last year in Salt Lake City, barely ahead in Portland and Los Angeles, well ahead in the Northern California area.

In three cities, the revival of residential building has had special effects on apartment construction. In Los Angeles, the apartment spree continues, accounting for more than half of all housing construction in the past year or so, despite signs that the market is just about saturated. In San Francisco, the apartment boom has been checked by a decline from 1,450 units in April to 1,220 in May—the first real setback since late 1956. In Chicago and its suburbs, this month's apartment starts are expected to top last June's after a five-month lag.

• **What They're Buying**—With FHA now approving 3% downpayment on up to $13,500 (BW—Apr.12'58,p52), the $13,500 figure is almost a magic number for house prices. To reach this figure, many builders have shaved features from last year's $14,500 house, but they say many buyers are still taking the same features—built-in appliances, basements, garages instead of carports, air conditioning—as optional extras. Others take the stripped house, then add these features under FHA's Title I loans.

Some cities where the market in general is slow report a surprising interest in the above-$20,000 house. That's true in Detroit, Philadelphia, Milwaukee, and Boston, where the slowest seller often turns out to be in the $14,000-$19,500 range.

Some of the support for the highest-priced houses comes from executive transfers, at income levels where the recession hasn't hurt so much as in the hourly paid laboring class. Some also comes from the fact that sites for tract development are all but gone, and sites cost so much that only a high-priced custom house is justified. In the Boston area, site costs are up as much as 50% from a few years ago, and in Los Angeles, the remaining sites are largely hilly and hard to build on.

As costs move up, houses tend to be priced out of one income bracket after another. "There's a fallacy in thinking a lower downpayment is enough of a solution," says Joseph J. Mollica, president of the Milwaukee Builders Assn. "What we really need are longer mortgage terms to create lower monthly payments." In Westchester County, N. Y., builders say "big mortgages are causing astronomical monthly costs—up to $350 for a $25,000 mortgage."

• **Backtracking**—Reporters in several cities, notably Chicago and Tulsa, note a movement back to the cities from the suburbs. Many families have found themselves swamped by commuting costs and increasing taxes, especially for schools. In the Chicago area, increased taxes have boosted monthly payments as much as 40% in a few years.

Back to Market

U. S. Steel is after new public money for the first time since 1954—to finance a record capital spending.

Capital spending authorized by United States Steel directors this week soared past the $1-billion mark to set a new high in the Corporation's 57-year history.

At the same time they raised their existing program by 56%, U. S. Steel's directors O.K.'d a move to help pay for it—a $300-million sinking fund debenture issue to be marketed July 16. It's U. S. Steel's first public financing since 1954, when a $300-million issue of serial debentures was sold.

Before this week's spectacular boosting of its spending program, U. S. Steel had authorized projects that would cost $640-million to complete. That total was down only $25-million from yearend, despite heavy first-quarter spending.

Another item in the Corporation's decision to borrow now was doubtless the fact that its working capital dropped by $98.8-million in the first quarter. That was the result of a $109-million modernization and replacement program paid for out of current funds.

• **Quebec Expansions**—A major component of the enlarged spending program will be in Canada. Since Mar. 31, U. S. Steel has asked bids on a 193-mile railroad from the Gulf of St. Lawrence to its Quebec Cartier iron ore holdings in Eastern Canada (BW—Oct.19'57,p175). This might cost $40-million to $50-million. Also up for bidding already is a 60,000-hp. hydroelectric plant, estimated to cost $15-million, near the site.

Additionally, the Corporation expects to invite bids for a harbor and loading plant at Port Cartier and an open pit mine and an 8-million-ton-per-year concentrating plant at Lac Jeannine. Ultimately, the works will require two new towns to accommodate about 5,000 people altogether. Estimates of the total cost of the Quebec Cartier project run from $200-million to $300-million.

• **Less Cash**—While its construction budget headed up, U. S. Steel's cash flow headed down—another reason for going to Wall Street now. For example:

• Retained earnings in the first quarter were more than 75% below those of the first quarter of 1957—$15.8-million vs. $68.8-million.

• Wear and exhaustion accruals, including charges for accelerated amortization, in the first quarter were 35% below those for the corresponding period last year—$45-million vs. $68.3-

million. A portion of this could have resulted from depreciation rates pegged to vary with the operating rate—which was way off in the first quarter. But a significant part of it stemmed from a marked drop in the 60-month accelerated amortization certifications available to it (BW—Feb.22'58,p57).

Earnings ought to get better as 1958 wears on if steel prices go up. But employment costs will rise significantly next week (BW—Jun.21'58,p32), and amortization accruals can only go down. Hence, the Corporation is running into the cash shortage its principal financial officers have been warning of for years.

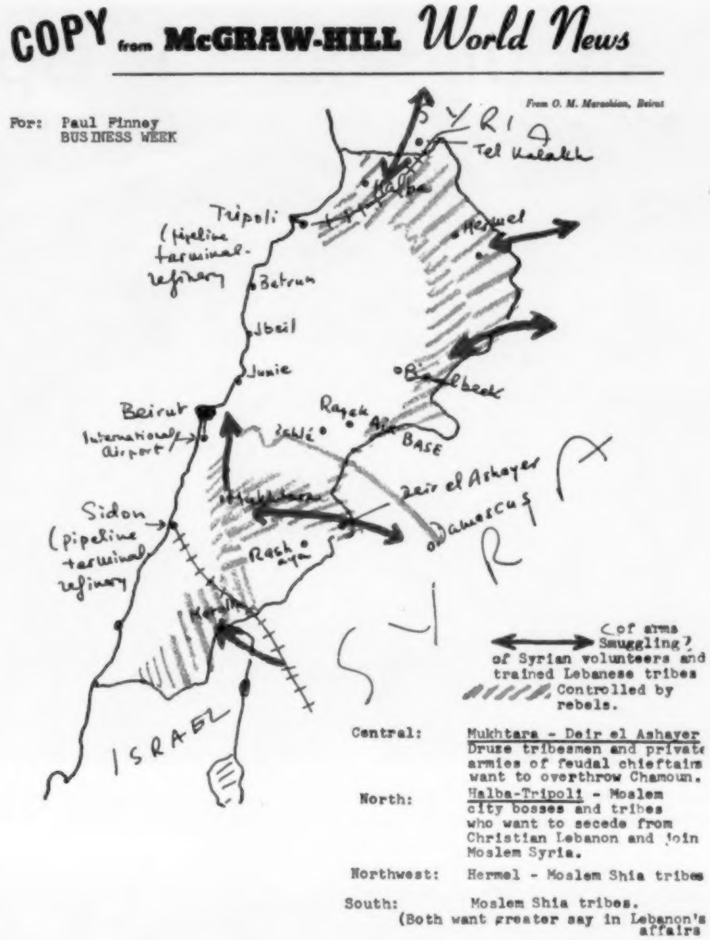
• **Interest Edges Up**—Within the trade, there was some feeling that U. S. Steel, which has demonstrated a rare sense of good timing in the past, may be missing the boat in going to the market now. Bond underwriters say that if Steel had sold its issue a month ago, it would not have had to pay more than 3.5%. Today, because of the fear of tighter money, most underwriters figure it would have to pay an average of 4% for its borrowings. And few bond men think that conditions will be any better a month from now.

Certainly it will not be able to match the low costs of its 1954 debenture issue, which had interest rates ranging from 1.3% to 2.65%. On the other hand, it stayed out of the market during the tight money period, when the cost of borrowing for a company like U. S. Steel would have been in the neighborhood of 5%.

• **New Routes Necessary**—The cash squeeze prevented U. S. Steel from financing its $1-billion program in the same fashion that it financed similar programs, plus its wholly new Fairless works and its Venezuelan ore project, early in the 1950s.

Then, with wear and exhaustion accruals almost doubling in five years, and by drawing down working capital $95-million over 3½ years, it rode out a drop in retained earnings of more than 50% while it completed the Fairless works and brought Cerro Bolivar into operation as an ore source. Only thereafter, in mid-1954, did it go to Wall Street to restore its working capital. By that time, of course, U. S. Steel's working capital requirements had soared well beyond those of 1950—both as a result of inflation and because of a 15% increase in capacity.

This time, although there's no excess profits tax to halve retained earnings, the wear and exhaustion account is accruing at an annual rate almost $100-million below that of 1957. Thus, the Corporation has to depend on Wall Street, not on a high level of business and an inordinately high rate of cash generation, to furnish the answer to its financial problems.



Why Lebanon Needs Help

From BUSINESS WEEK's bureau chief in Beirut this week came a sketch map of the civil war that has been tearing Lebanon apart politically and economically for the past six weeks. A look at the map (reproduced above) tells better than words what Pres. Chamoun's pro-Western government has been up against.

The revolt has been inspired and supplied from neighboring Syria—partly by Soviet agents and partly by stooges of the United Arab Republic's Pres. Nasser. Early in the week, United Nations Secy. Gen. Hammarskjold conferred with Nasser in Cairo in an attempt to win concessions. He failed.

Then, at midweek, the rebels renewed their offensive after a few days' lull. With the squeeze increasing, the Chamoun government appealed for a U.N. police force to "completely seal off Lebanon's frontiers." This request sent Hammarskjold hurrying back from Beirut to New York on Wednesday.

• **Veto in the Way**—The Secretary General knew that to meet the Lebanese government's request—with the military situation as it is—it would be necessary for the U.N. to create a sizable, well-armed force to control the borders with Syria. And he also knew that a Soviet veto would block any such move by the Security Council.

As a result, the Western diplomats awaiting Hammarskjold's return at the U.N. felt an emergency session of the General Assembly would have to be called. By two-thirds majority, the Assembly could authorize a U.N. force—probably like that used in the 1956 Suez crisis, or even like the Korean one.

Unless there's a political compromise in Lebanon replacing Chamoun with a more neutral president, Washington seemed likely to incline toward such a course (page 85).

At midweek, meanwhile, the Eisenhower Administration was still trying desperately to avoid direct intervention by U. S. Marines attached to the Sixth Fleet and British paratroopers stationed on Cyprus.

Tranquil Pills Stir Up Doctors

TRANQUILIZER for doctors at AMA meeting was artist Salvador Dali's conception of man's release from anxiety, depicted inside a 60-ft. "chrysalid," or butterfly cocoon.

The big news at this week's annual meeting of the American Medical Assn. in San Francisco wasn't so much what happened—or even the unusual merger of art and medicine in the exhibits (pictures)—as what didn't happen.

Doctors at the year's top medical confab had looked for a heated outbreak of the fight currently raging in medical circles over the possible harmful effects of some of the tranquilizers. Only a few weeks earlier at the American Psychiatric Assn. convention in the same city, unfavorable reports on tranquilizers had stirred considerable controversy.

The fight never broke into the open at the AMA. But in behind-the-scenes gatherings, doctors voiced concern over a Mayo Clinic report that one of the tranquilizers, taken to relieve high blood pressure, has had a serious enough reaction on some patients to send them to the hospital for psychiatric care. The Rochester (Minn.) clinic recently admitted 80 such patients.

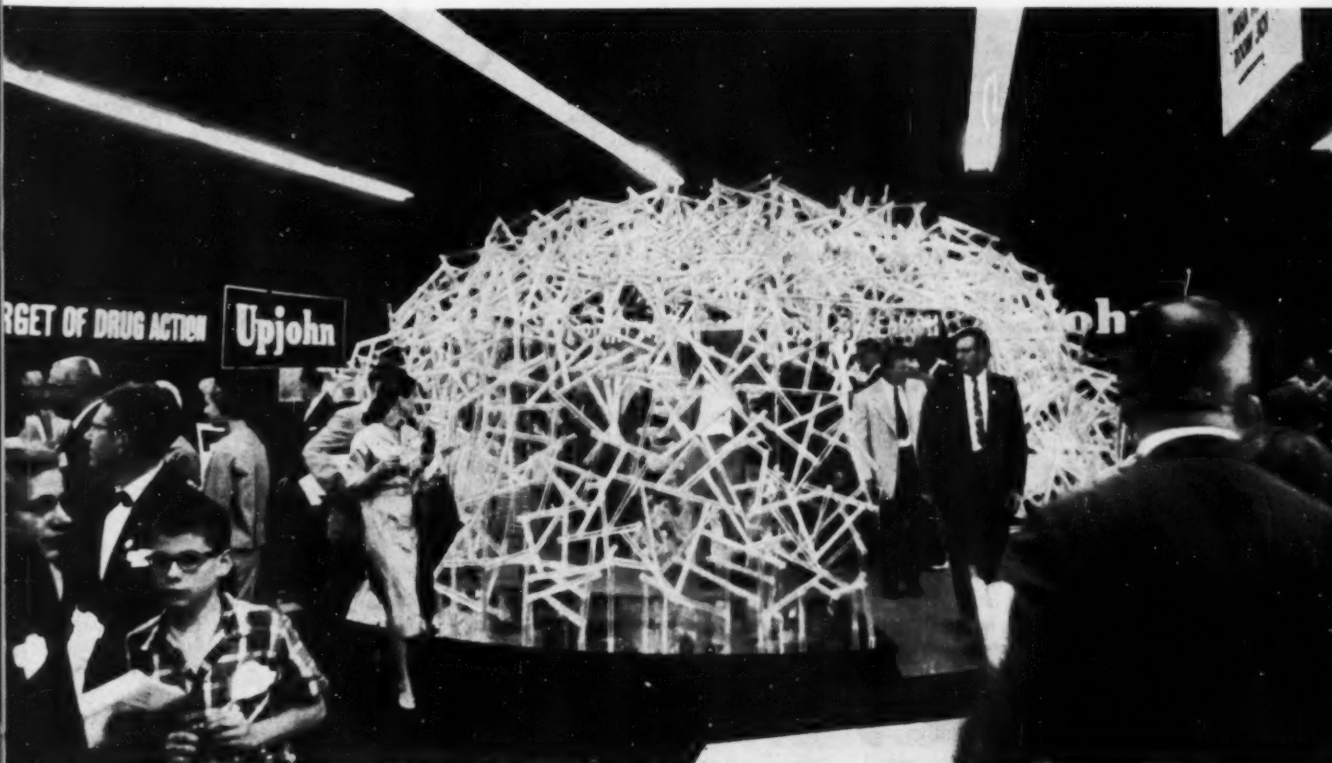
• **New Hurdle**—Admittedly, Mayo doctors say, the tranquilizers may not have produced the mental illness, since it seems unlikely that any drug could directly duplicate a complicated psychiatric illness. It is more likely that the tranquilizers merely acted to upset an unstable internal equilibrium that already existed.

But many people are disturbed by evidence now beginning to pile up that raises questions on the use of tranquilizers. Many doctors, obviously impressed by the reports, are starting to prescribe tranquilizers only in case of obvious dire necessity.

Companies making the lucrative tranquilizers, however, are inclined to view the recent claims as just one more hurdle of the kind any spectacular new type of drug must cross. Consensus seems to be that careful evaluation of tranquilizers can only work to the long-term good of the business.

Wallace Laboratories, sponsor of the big Salvador Dali walk-through tranquilizer exhibit (pictures), isn't bothered at all. Wallace's Dr. Frank Berger told the Sixth National Medical Chemistry Symposium of the American Chemical Society at Madison, Wis., this week, that the achievements of tranquilizers must be recognized without exaggerating either hopes or fears.

Possible bad public reaction to the first solid evidence that tranquilizers can cause serious side effects on certain patients could have immediate business consequences, however. Medical men estimate that 17-million Americans—some 10% of the population—suffer from some nervous or mental problem (BW—May3'58,p131). Many of them



HUMAN CELL, magnified 1-million times, was Upjohn Co.'s AMA exhibit, which took 3,700 ft. of plastic tubing, 1 mi. of wiring.

INSIDE THE CELL (below), doctors—and laymen—see how it is constructed, how it stores fat, forms protein, and obtains energy.

(to the tune of $150-million in sales last year) are potential tranquilizer customers who could be scared off.

• **Good News**—The San Francisco AMA meeting had happier news.

In the war on **cancer**, the University of California's Nobel Prize winner, Dr. Wendell M. Stanley, reported there can be little further doubt that viruses are the prime cause of most types of cancer (BW–Jun.23'56,p54). Research has now proved beyond contention, he said, that viruses can cause cancer in animals, and "in the light of current knowledge, it is therefore now time to assume that the same is true in human beings, and execute our research accordingly."

General acceptance of the virus-cancer link as valid marks a clear turning point in research thinking, and should result in redirecting many research projects along more clearly defined paths.

Arthritis sufferers got the encouraging news that Merck & Co. scientists, already famed for the original laboratory synthesis of cortisone, have come up with a new anti-arthritic hormone drug, described as at least 30 times more powerful, with fewer undesirable side effects.

Chemically known as hexadecadrol, it has been used on humans less than six months—far from long enough, Merck points out, to permit general marketing. But early results are so encouraging that studies are under way by Vanderbilt University, the Mayo Clinic, and private research organizations.

Heart patients got a good word, too. Pitman-Moore Co., Indianapolis pharmaceutical company, reported that substitution of a new margarine, made from nonhydrogenated corn oil, for other fats in the diet significantly lowers blood cholesterol levels. There was evidence, too, that this may have halted further progress of atherosclerosis, the most serious form of hardening of the arteries. The test, one of the largest controlled studies ever done in the cholesterol field, was conducted on 301 patients at Central State Hospital in Indianapolis. Its results strongly support the suspicion long held by doctors that high blood cholesterol is related to atherosclerosis.

• **Basic**—Other basic medical advances were reported at a medicinal chemistry meeting of the American Chemical Society at Madison, Wis. Dr. L. S. Schanker of the National Heart Institute, delving into the mysteries of the human cell, revealed a radical new theory as to how the cell absorbs foreign compounds. His research shows, he said, that the key to cell absorption is a chemical one, having to do with the drug concerned and the acidity or alkalinity of the cell that is going to absorb it. If both are alike, the greatest cell absorption occurs; when they are different, the least.

Supreme Court's Quiet

The Supreme Court will wind up a long but unspectacular term in a few days, still the subject of criticism and debate—though many of the accusations are directed at decisions made in previous years.

Indeed, this term has differed markedly from recent ones, which were heavily spiced with major issues and controversial decisions. In numbers of cases handled—over 1,000 so far, with more than 100 decided by written opinion—the term has been an extremely active one. But few of the cases have been really big, and even fewer turning points in the law have been established by decisions (table).

• **Civil Rights**—By and large, the court again made its biggest splash with civil rights cases. Labor decisions were important, but several issues—notably the union-management hot cargo issue—were decided on exceedingly narrow grounds. The antitrust decisions were routine, with nothing to match last term's du Pont-General Motors split-up ruling. There were few broadly significant decisions in the regulation of business. Even in civil rights, there was nothing to match the rulings last term on the rights of Communists and criminals and on U.S. security regulations.

One new twist came in the field of labor law. A majority of justices said unions are not exempt from common law suits by workers seeking damages for being prevented from working by union force or threats or for being expelled illegally from unions.

The court denied that the Taft-Hartley Act excludes state courts from awarding common law damages caused by union violence—as it previously had ruled in employer suits. The ultimate reach of the precedent is uncertain. But it puts local judges and juries into labor regulation in a big way, outside T-H.

• **Picket Damage**—A related issue will come up next year: The court this week agreed to review a California state damage award against the San Diego Building Trades Council for picketing a lumber company. A few years ago, the Supreme Court in the same case said California could not enjoin the picketing under state labor law, because the conduct may be a violation of the federal Taft-Hartley Act.

The case should now test whether state courts may use state labor law—rather than common law damage actions—to award employer damages against non-violent union conduct that may be either protected or prohibited by Taft-Hartley.

Another new twist came on the old principle that federal property is generally immune from state taxation. The court ruled that states may impose personal property taxes on government owned materials being used by contractors in performing government contracts. Since this tax burden will be passed on to the government, the court's rulings impose a substantial additional financial burden on defense contracts.

• **Reclamation**—Despite this seeming conflict, the court has continued its trend to support federal authority where it conflicts with state rights. This week it unanimously upheld the federal reclamation law against California court rulings that state law was superior to the federal act.

I. The Warren Court

The courts' severest critics got little ammunition for their demand that the court should be restrained in some basic way. General Congressional support has not materialized for taking certain areas completely out of the court's jurisdiction—as originally proposed by Sen. William Jenner (R-Ind.). There is even strong doubt that the watered-down version will be adopted.

Despite the over-all calm of this term, there are signs that all is not sweetness and light inside the court. There appears to be a growing struggle between sharply conflicting judicial philosophies and temperaments, particularly on individual rights.

Much of this battle goes on unobserved during private conferences on cases. But its symptoms have sometimes cropped out in sharp exchanges between justices in open court and, more often, in the biting rejoinders of an increasing number of 5-4 splits.

• **The Line-Up**—Though it has not held in every big case, the line-up on the Warren court indicated last term was: the Chief Justice, with Justices Black, Douglas, and Brennan, as opposed to Justices Frankfurter, Burton, Clark, and Harlan. That cleavage became more solid this term. Justice Whittaker, the newest member, still swings between the groups; Brennan himself is not yet completely committed to the Warren bloc.

Perhaps best example of the deep philosophic split, touched with personal carping, is the court's record on decision day, Mar. 31. In several naturalization and citizenship cases, the court split 5-4.

In one of them, Frankfurter spoke for a 5-4 majority to uphold the power of Congress to deprive a natural born citizen of his citizenship because he voted in a foreign election.

In another, Warren spoke for a 5-4 majority to strike down a clause in the

Term Masks Deepening Rift

LABOR:

Damage Suits Against Unions

State courts may award workers substantial damages against unions for keeping them from work by force or threat of force and for wrongful expulsion from the union, even though union conduct violates Taft-Hartley Act.

Hot Cargo

Unions may sign hot cargo contracts with employers, but cannot enforce them over the employer's objections by direct appeals to workers.

ANTITRUST:

Good Faith Price Discrimination

After 17 years of litigation, Standard Oil Co. (Ind.) sales in 1940 to some customers at lower prices than granted others in the Detroit area are upheld as necessary to meet, in good faith, competitors' lower prices to the favored customers.

Robinson-Patman Act Triple Damage Suits

Businessmen cannot use R-P Act ban against sales at "unreasonably low prices" as the basis for private triple damage suits against their competitors.

Soap Monopoly

The Big Three soap makers must stand trial on civil monopoly charges, even though they are denied access to grand jury records used by the government to prepare the charges.

TAXES:

Government-Owned Materials and Plants

State and local governments may impose personal property taxes on government-owned materials and work in process in the hands of contractors, and may levy real property taxes on federally-owned buildings used by private companies either for government contracts or private business.

TRANSPORTATION:

Shipping Dual Rates

Shipping conferences may not use dual rates—giving shippers reduced rates on ocean freight for using conference ships exclusively—to stifle competition from non-conference steamship companies.

Railroad Truck Companies

The Interstate Commerce Commission does not have to limit operations of trucking companies owned by railroads to service directly connected with the railroad's freight service.

ALIEN PROPERTY:

General Aniline & Film Corp.

Before the government can sell this $100-million chemical property seized as enemy alien property in World War II, former Swiss owners are entitled to trial on merits of their claim that they were not a cloak for German interests—even though Swiss law bars production of key documents.

CIVIL RIGHTS:

School Integration

Court refused to interfere with several lower court orders directing integration in Southern states, including Virginia, under its 1954 ruling barring racial segregation in public schools.

Job Discrimination

Negro railroad workers may go into federal court to fight alleged discrimination against them by a union in job classifications and seniority rights.

Eavesdropping

Listening to a conversation on a regular extension telephone, at the request of one of the parties to the conversation, is not illegal wiretapping and evidence so obtained may be used in federal court.

Passports

Congress has not authorized the State Dept. to require citizens to furnish non-Communist affidavits as a condition to obtaining passports; and the Secretary of State has no authority to withhold a passport on the basis of confidential information.

Citizenship

Congress may constitutionally deprive a citizen of his citizenship for voting in a foreign political election, but may not constitutionally take away citizenship for deserting the military forces in time of war.

same law, depriving wartime military deserters of their citizenship.

• **Deep Split**—In the desertion case, Warren and Frankfurter stated their conflicting concepts of the Supreme Court's role in government and the responsibilities of individual justices in deciding constitutional questions.

Warren said that while it is a "grave" thing to declare an act of Congress unconstitutional, "We are oath-bound to defend the Constitution . . . the judiciary has the duty of implementing the Constitutional safeguards that protect individual rights . . ."

Frankfurter belittled Warren's conclusion that loss of citizenship is a "cruel and unusual" punishment for wartime desertion, since the same offense is also punishable by death. Said Frankfurter: "When the power of Congress to pass a statute is challenged, the function of this court is to determine whether the legislative action lies clearly outside the Constitutional grant of power. . . ."

Warren took four members of the court with him on the case. Frankfurter had three supporting his strong dissent. Observers felt that the split revealed in this case on the crucial power to strike down Congressional legislation pervades much of the court's work.

II. Next Term

The court has one more decision day scheduled before adjourning for the summer—unless it just cannot finish work on the 18 cases still pending. These include ones involving:

• The right of employers to prohibit distribution of union literature or union solicitation in the plant, while they distribute anti-union literature and make anti-union statements.

• The power of the FTC to police alleged misleading advertising by insurance companies in states having their own insurance laws.

Some 60 cases have already been accepted for the fall term, but few of them are significant. Other, and more important cases, will probably be heard. One is the heated controversy over state versus federal rights to oil deposits beyond the three-mile limit. The Gulf states, led by Louisiana, claim rights out to at least 10.5 miles; Justice Dept. says state control ends at the three-mile line.

• **Segregation**—There is little doubt that important school segregation appeals will come up again, perhaps forcing a showdown on the vague directive that integration must proceed with "all deliberate speed."

There is an outside chance the Bethlehem Steel-Youngstown Sheet & Tube merger case will reach the court in the 1958-1959 term. It's considered the crucial test of the Clayton Act powers to prevent anti-competitive mergers.

Deciding Who Controls Space

Congress has decided all non-military space exploration will be under a civilian agency. But a House-Senate conference committee is still debating the details.

There's no doubt this week that civilians will be responsible for the U. S. showing in its race with the Russians to get into space.

House and Senate have now agreed that a civilian agency reporting to the President will be in charge of all non-military projects; the Pentagon's role will be restricted to those with military applications.

Control of the spending of billions of dollars is involved. Here's an idea of what it costs to get into space: Project Vanguard, a relatively primitive operation, is costing close to $200-million; the space probes of the Pentagon will run to about $500-million during the next 12 months; developing the 1-million-lb.-thrust engine that's considered essential to space exploration will cost $200-million to $500-million.

These figures don't take into account the billions the Pentagon is already spending to develop and produce the IRBMs and ICBMs to be shot against an enemy. The engines that propel these will be used to propel presently planned space research flights.

• **Brassy Tinge**—For the next couple of years at least, U. S. space projects will have an almost completely military look. That's because the Pentagon's Advanced Research Projects Agency is already acting as the agent for the "non-military" space probes that are on the program. APRA is likely to be on the front line for some time, even after the new civilian agency is created.

It is generally understood that the new agency will be built around the venerable National Advisory Committee for Aeronautics, which has for years been just about the single most important agency conducting basic aeronautical research.

• **Reconciliation**—This week, an 18-man House-Senate conference committee is working out differences between the House bill (which is close to the Administration's proposals) and the Senate version, which differs considerably. These are the major points of conflict:

• The House, backed by the Administration, wants a one-man boss over the new agency with a 17-man advisory committee. The Senate, however, wants to place top authority in a seven-man policy board, with a single director one notch below the ruling board. The Senate's policy board would be composed of heads of agencies such as the Defense and State Depts. and the Atomic Energy Commission. Observers expect the House version to win out.

• The method of deciding whether a project is military or non-military is up for debate, too. Actually, neither bill is considered really adequate, so the job of clarifying the issue is left to the White House.

However, there is no doubt that both sides of Congress want a strong civilian agency in control of policy on space experiments. The difficult task is giving the Pentagon leeway in military projects without letting it dominate all space exploration.

• **Shooting the Moon**—While Congress winds up the decision of who should control space experiments, both the Army and the Air Force are pushing ahead on a shot at the moon.

Each service wants to be the first up. The Air Force recently said it would make the first attempt in August, which drew a sharp rebuke from Secy. of Defense McElroy. The Air Force retracted, but observers still think it will make the try in August.

The Army is keeping a strict secrecy lid on its moon shoot attempts, but the Air Force rhubarb is sure to prod Army's Ballistic Missile Agency into matching or beating the Air Force's schedule.

Neither of the two shoots will try to hit the moon; such a hit would be sheer luck. In fact, the experts think that far more technical data would be obtained by making a close pass or an orbit around the moon.

• **Dyna-Soar**—On another front, the Air Force is getting set for its try to put a man into space. First step is to collect data at high altitudes with the highly touted X-15. Pilots are already going through grueling simulated flight tests in preparation for the actual flights, slated for early next year.

The X-15 won't orbit, but it is the forerunner of the Air Force's Project Dyna-Soar, which will make the first attempt to put a man into space and return him.

Contracts were recently awarded to Martin and Boeing to develop the craft. It will be carried as high as possible by a B-52, then launched on its space flight. Plans are to have the manned satellite make its earth orbit, then skip its way back down in much the same manner as a rock is skipped over a pond. The project is one to two years away, depending on how successful Air Force is with its X-15.

LATEST skirmish in varied career of Louis E. Wolfson involves "fraud" charge as . . .

Wolfson Draws SEC Fire

Louis E. Wolfson of Florida, speculator-industrialist who gained control of Merritt-Chapman & Scott Corp. and other companies, and who just missed getting control of Montgomery Ward & Co., was faced this week with an official charge of stock manipulation.

The Securities & Exchange Commission alleged that Wolfson and "unknown" associates engaged in "fraud and deceit" in trading of American Motors Corp. stock. SEC obtained a temporary federal court restraining order that prohibited Wolfson from trading the stock until the public is fully aware of all the facts behind his transactions.

Wolfson promptly denied any manipulation in American Motors' stock. He admitted that he had sold his holdings of over 400,000 shares—7.5% of AMC's outstanding stock—a block that had made him the company's largest shareholder. He added that "I have an interest in joint accounts that I am advised are now in a short position in the stock."

• **Basis**—This short position is the basis of the SEC's charge. There is nothing illegal in selling short—selling borrowed stock with the intention of replacing it later at a lower cost and pocketing the difference. But the SEC charges that Wolfson made "false and misleading" statements that tended to convey the impression that he held AMC stock outright and was planning to dispose of his holdings. The SEC complained that for the past several months the Wolfson group had been indicating, mostly in newspaper stories, that it still held large blocks of AMC stock and would continue to hold them. But during this period, Wolfson is alleged to have been selling.

Only last week the New York Times quoted a Wolfson "spokesman" as saying that Wolfson's shares were being sold because the "stock was fully priced." After the SEC charge, the Times disclosed that the spokesman was Alexander Rittmaster, a close friend and a director of Wolfson's Merritt-Chapman & Scott Corp. Rittmaster told the Times that 100,000 shares had already been sold, and that the other 300,000 would follow.

But it is now clear, on Wolfson's own admission, that all of his original shares had already been sold before the Rittmaster statement. For Wolfson declared, "I am not now, and for several weeks have not been" an AMC shareholder. In fact, Wolfson had been adding to his short position, which the SEC estimated at over 150,000 shares. In mid-April, the total short position in AMC was only 30,000 shares. By mid-May, it had jumped to 203,000; by mid-June, to 260,000.

• **Profitable**—From all accounts, Wolfson made a legitimate killing on his original purchase and sale of AMC. He bought most of his 400,000 shares—enough to name two men to AMC's board—in the winter of 1956-7 at prices ranging from $5.25 to $9. If most of the stock was sold this spring, he got anywhere from $11 to $14.

Based on an average purchase price of $7, Wolfson's holdings would have cost him $2.8-million. Moreover, if Wolfson had bought the shares at the then prevailing 70% margin rate, he would have paid out something less than $2-million. Based on an average sales price of $12 a share, he would have got back $4.8-million, for a long-term capital gain of just under $2-million—just about doubling his money.

On the short side, it is much more difficult to figure. Wolfson presumably started selling short in order to protect his paper profit—what Wall Street calls "selling against the box." But he apparently sold out his holdings and built up his short position further in the last few months. In the last few days, according to the SEC, Wolfson bought 50,000 AMC shares to cover part of his short position.

• **Trading**—There has been no thought of banning trading in AMC—only in keeping Wolfson—or his interests—from buying or selling. On Friday of last week, the day Rittmaster called the stock "fully priced," 92,000 shares were traded, and the stock fell from $12.75 to $12.25. On Monday of this week, Wolfson declared that the Rittmaster statement was "inaccurate." The market interpreted this to mean that Wolfson actually had more than 300,000 shares to unload. The price dropped to $11.62, with trading of 113,400 shares. On Tuesday, when the SEC made its charge that Wolfson had a large short position, the stock rebounded to $12.50 on 78,000 transactions. It was the most heavily traded issue on the exchange for each of the three days.

The disclosure that Wolfson has a large short interest is bullish for AMC stock. For Wolfson will eventually have to purchase stock to cover his short holdings.

The SEC said it may ask the Justice Dept. to consider criminal charges of violation of the anti-fraud and manipulation provision of SEC acts.

Any criminal proceedings depend on the course of the hearing on continuing the preliminary injunction. At midweek, there was no way of telling what it would disclose.

• **AMC Clear**—In the flurry of charge and denial, one thing is clear. American Motors has not been involved in Wolfson's dealings. George Romney, chairman and president of AMC, had no comment on the charges, and AMC officials expressed surprise that Wolfson sold his stock when AMC was doing so well. The SEC specifically exempted AMC from any part in the Wolfson maneuvers.

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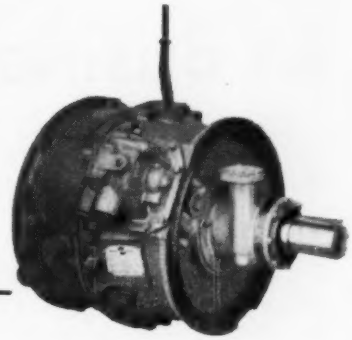

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Silberstein Out, Landa In as Boss Of Penn-Texas; Feuding Continues

Leopold D. Silberstein, whose one-man rule of Penn-Texas Corp. was diluted into a triumvirate last February, this week gave up virtually all control. Silberstein resigned as president of the industrial polyglot that he had built up over the seven years since he first took control of Pennsylvania Coal & Coke Corp. He remains as a director, and has a five-year contract as a consultant, but there's no question that **another man is now boss at Penn-Texas: Alfons Landa, who becomes president and chief executive officer.**

Landa, a Washington lawyer, started battling Silberstein early last year, in the proxy fight financed by Robert Morse, Jr., president of Fairbanks, Morse & Co. At that time, Silberstein was fighting for control of FM. A compromise put Landa on the P-T board, and he ultimately became chairman of the finance committee.

Now, Silberstein's resignation is part of another compromise, in which his backer gives up one board seat and Landa's group yields two—to make room for the three seats won this year by still another dissident group headed by Harris J. Klein and Theodore Blumberg. But the new board has not been named, because Klein and Blumberg are fighting over who should get the seats.

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Hula Dancers Union Steps Up Wages, But Amateurs Remain a Problem

Rising costs have reached the Hawaiian hula. With the dancers now pretty well unionized, even the most casual ship-greeting undulations cost $10 per dancer—double the old price.

Featured dancers in top spots get up to $125 a week; the chorus is in the $65-75 range.

Still, the union admits to troubles in separating its pros from the host of amateur hula dancers. "Every Hawaiian in the Islands is a born entertainer," says the union newspaper, rather wistfully.

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Onassis' Delay on Tanker Building Leaves Lawmakers in Peevish Mood

The news that tanker magnate A. S. Onassis is delaying the construction of three super tankers has left Congress decidedly peevish, and quite unmollified by Onassis' two appearances before the House Merchant Marine Committee.

The ship operator had promised to build the three big ships in U.S. yards, when the government permitted him to sell 14 other ships to foreign operators. **Now Onassis says the need for tanker capacity has vanished.**

The Maritime Administration has turned the matter over to the Justice Dept., which has gone to court in an effort to make Onassis either stick to the original schedule or pay $8-million damages. In Congress, the feeling seems to be that Maritime should have been a lot tougher right from the start, lest other companies also cancel building plans.

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Du Pont Charges Phillips Pete Infringes Its Patent on Linear Polyethylene

Controversy over the invention of linear, high-density polyethylene boiled over this week when du Pont sued Phillips Petroleum Co. in the Wilmington (Del.) federal court.

Du Pont charges Phillips with infringing its "composition of matter" patent, which credits du Pont with discovering the actual molecular structure of linear polyethylene—the more durable, temperature resistant type of the plastic familiar in squeeze-bottles, houseware, packaging.

The suit seeks to make Phillips stop making and selling the plastic; du Pont says it went to court after licensing negotiations had broken down.

A spokesman said Phillips did not consider the du Pont patent valid, hence there was no infringement.

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Detailed Price Tags for Autos Are Due to Blossom on New Models

Those detailed price tags will appear on Detroit's new model cars this fall. Sen. Monroney's labeling bill passed a unanimous Senate, should breeze through the House in the present term, and is expected to get a Presidential O.K. The bill means that each passenger car and station wagon will carry:

- The maker's suggested retail price.
- The suggested price of each piece of optional equipment or factory-attached accessory.
- The cost to the dealer of transportation.

The FCC has ordered AT&T to chop 15% off its rates for certain private leased-line telephone services rendered to industry and the government. The General Services Administration had asked a 25% cut, charging AT&T was making an "excessive" profit.

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United Aircraft Sets Up R&D Division In Drive for Rocket-Missile Leadership

United Aircraft Corp.'s move toward leadership in the missile-rocket field this week brought the creation of one division and the renaming of another:

The Missiles & Space Systems Div. will be set up with 300 scientists, engineers, and technicians at UAC's East Hartford (Conn.) plant.

The Norden Div. will be the new name of Norden-Ketay Corp. of Stamford, designer and maker of guidance systems.

WASHINGTON OUTLOOK

WASHINGTON
BUREAU
JUNE 28, 1958

A BUSINESS WEEK
SERVICE

Now's a good time to look ahead on government spending. Fiscal year 1958 is ending and a new year, 1959, is about to start.

You will see a sharp spending rise over the next 12 months. Part of this results from the space race with Russia. But mostly, it stems from the Administration's decision to rely on bigger spending and easier credit to end the recession and get the economy turned upward again.

The deficit will rise, too. In fact, it seems headed for new peacetime records. That's one reason for the worry over future inflation.

For perspective, start with this fiscal year, ending June 30.

On the spending side, you have to go back to January, 1957. That's the first time Pres. Eisenhower gave an estimate of what his Administration would spend in the 1958 fiscal year, the 12 months now closing. The figure that was given Congress and the nation at that time was $71.8-billion.

A year later, in January, 1958, midway in the fiscal year, the budget showed an increase to $72.8-billion—a rise of $1-billion. This reflected, primarily, last fall's decision to spend more and faster for defense.

The picture now, at the end of the 1958 fiscal year, is for spending of close to $73-billion—only a little above the January forecast. This disappoints Washington. It had hoped the total would be higher by a billion. The reason that the rise didn't develop is that the defense cuts last fall took too long to wipe out.

Now, look at the deficit side, the other side of the coin. The decline in revenues, due to the recession, is much greater than the increase in spending.

The red ink will be substantial, when all the figures are totted up. In January, 1957, Eisenhower forecast a surplus of $1.8-billion for the 1958 fiscal year. By January, 1958, this surplus had been wiped out—turned into an estimated deficit of $400-million. When the books are closed on the year sometime next month, the actual deficit will be close to $3-billion. Spending will be up less than $1-billion, and receipts will be off more than $2-billion.

Democrats will make much of this. Eisenhower has deplored deficits. His biggest was $4.8-billion, about the time Korea was washed out. Now he turns up with some $3-billion of red ink in a peacetime year.

The outlook for the new year is more of the same, only bigger.

Spending will push up sharply under programs already on the books. It will approach $78-billion before the next 12 months are over and will be some $80-billion before Eisenhower's second term is up. It's partly defense, as we try to keep our balance with Russia. But it's also more for all parts of government, especially job-making public works.

The rise in the deficit will be huge. Officials are slow to estimate how high it will go. Much will depend on how fast the nation recovers from the recession. The prospect is for a deficit of between $8-billion and $11-billion. That's startling, especially when there's no hot war.

The debt ceiling will have to go up—again and again.

Congress will vote a $5-billion hike shortly—before adjournment this

WASHINGTON BUREAU
JUNE 28, 1958

summer. That will take the ceiling to $285-billion, or some $10-billion above the level Eisenhower inherited and tried to live with.

Another $5-billion rise next year is in prospect. It will take that or more to accommodate the new government borrowing now indicated by the budget prospects. A boost to $300-billion before Eisenhower's second term expires is speculated on.

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Congress will quit around mid-August—in about six weeks.

Labor legislation is in doubt. The "moderate" Senate bill to increase the policing of union executives, especially their handling of members' money, faces delay in the House. Union spokesmen would like to see the bill pass, since it might forestall tougher legislation in a non-election year. But the House may decide to wait.

On foreign aid, Congress will vote $3-billion plus. This will mean a continued flow of aid abroad at about present levels.

There's a cat-and-dog fight on reciprocal trade. The five-year extension of tariff-cutting powers which the Administration won in the House is in bad trouble in the Senate. The Administration may be forced to accept a three-year extension. In doing this, it would not have to take Congress-imposed commodity quotas, considered highly objectionable.

The tax action is significant. Business made a pretty strong pitch for relief. Congress disregarded this in large measure as it voted to continue the 52% corporate rate and the excise taxes that had been scheduled to come down on July 1. The question: If relief is not voted in a recession, when might it be expected? The simple answer is that no substantial relief in this field is in sight. Excise taxes may be juggled a bit in the future, but what Washington gives up, the states will pick up. On the corporate side, the idea of an even split between the companies and the government has wide appeal in Congress. What this means is that any future relief will be limited to two percentage points.

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The Sherman Adams incident is losing some of its heat. But it isn't over by any means. The Democrats will continue to dig in an effort to show that Adams had more connections with his Boston friend Goldfine than have yet been put on the record. They think it's significant that Adams' testimony centered largely on the revelations the committee had brought out.

Prospect still is that Adams will go. More and more GOP members of the House and Senate who are up for reelection this year are calling for his retirement—regard him as a handicap. The Cabinet, itself, is not unanimous on his staying. In public, the Cabinet will back Adams. In private, some members are highly critical.

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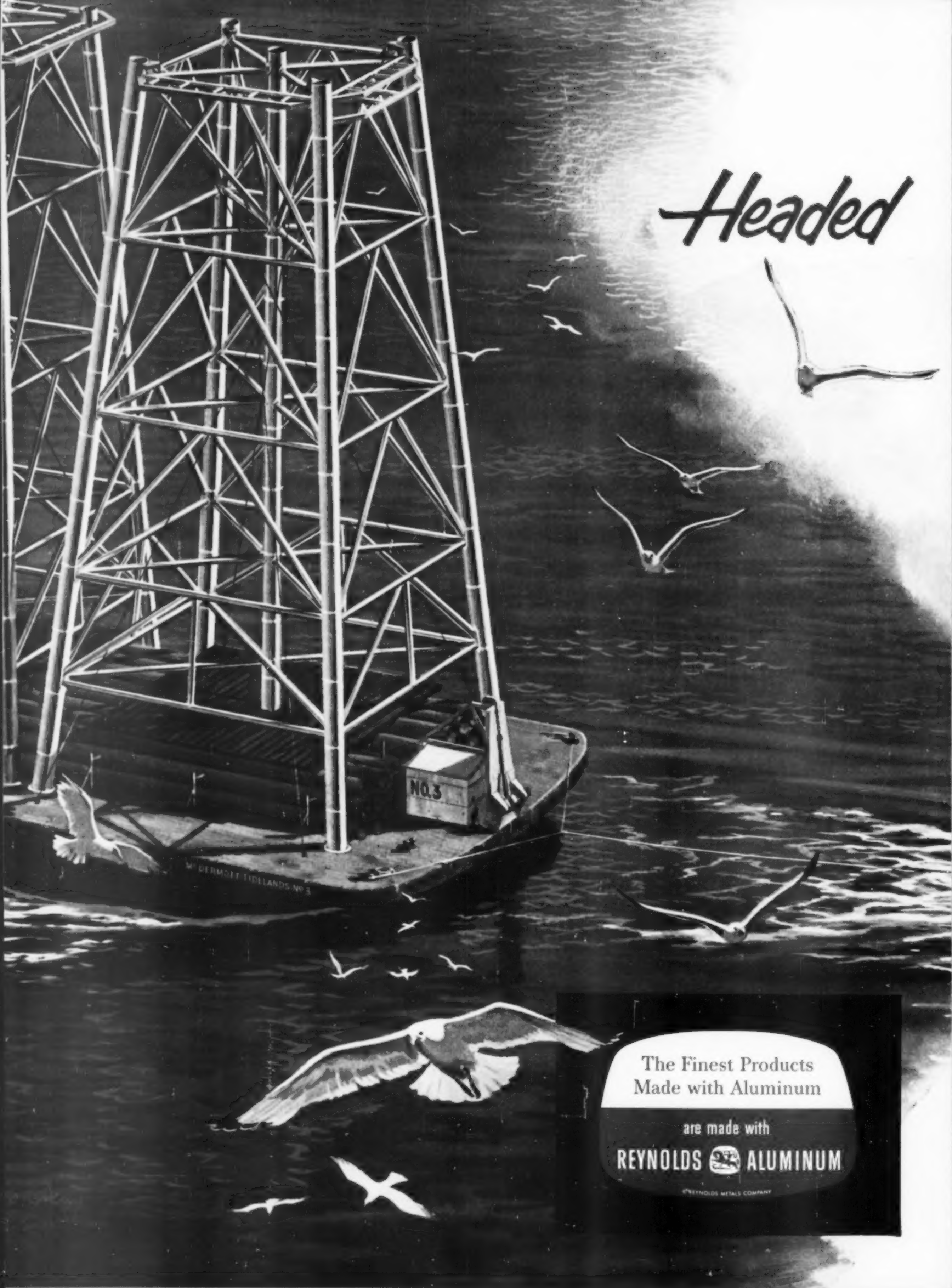
A summer war scare seems probable. The U. S. and the British may have to put troops into Lebanon. They are committed to do this if that government calls for help. That might be met with either Russian troops or "volunteers" in Syria. This prospect ties in with the demonstrations that have taken place in Moscow, apparently with the consent of the Russian government. Washington discounts any idea of a big war at this time. But officials are concerned over the risks in the Middle East.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MANAGEMENT

How Philco Tuned Out Its Static

Two years ago, company was deep in troubles, but despite recession setbacks, new management has it headed into clear.

For more than two years the appliance industry has been plagued by one of the worst sales slumps in its history. But few, if any, appliance makers have taken as many lumps as Philco Corp. and remained in business.

Philco's problems have gone far beyond the appliance slump, though the sales sag certainly made all its other troubles more acute. The Philadelphia company simply was not geared in any way for the fiercely competitive market it has been operating in since 1955.

Inventories were much too heavy. Money was pouring into research and development projects—essential to the company's future but nowhere near the profit-making point. Modernization and automation of vital production lines were just getting started two years ago. In an effort to change all this and reverse the downward slide, Philco has undergone a management turnover that has brought new men to almost every key executive post.

The new management team is still taking its lumps, thanks to the general business recession. The company took a net loss of more than $1-million in the first quarter of this year. In May, the pay of 4,000 salaried employers, including all executives, was cut by 5% to 10%.

- **Around the Corner**—But management has been predicting Philco would "be in the black by June," and is confident of ending the year with a profit.

Despite the bad start this year, Philco seems to have turned its most important corner. Since 1956, when the company appeared to be gradually coming apart at the seams, it has taken a number of steps aimed at improving its financial status and operating efficiency. Most important of these came in 1957, when Philco:

- Increased sales by 5%—despite continued droop in the appliance market and curtailed defense spending.
- Repaid $18-million in bank loans and improved its cash position by $3.5-million.
- Cut inventories by $12-million, a 20% slash.
- Increased its net worth by $4-million.
- Boosted net earnings to $4.4-million, as against $567,000 in 1956.

- **Danger Signs**—Members of Philco's management saw trouble coming their way as far back as 1955, as the inevitable result of the way things were heading. After considerable soul-searching, they decided that it was going to be more than they could handle. So they began looking around—as a former top officer puts it—"for young men with the new talents the situation called for."

TOP MAN at Philco, Pres. James M. Skinner, Jr., has in two years cut back bulging costs, slashed inventories, relieved financial pressures, built new management team.

I. Turnover on Top

The management shift began in April, 1956, when James H. Carmine resigned as president, and was succeeded by James M. Skinner, Jr., then 41 and head of the very successful Television Div. But by that time the pattern for 1956 had been set, and it was too late for the new top team—still by no means complete at the end of the year—to dam the flood.

The old management's forebodings proved justified. Net earnings tumbled from more than $8-million in 1955 to $567,000 in 1956. This was on 1956 sales of over $356-million—the company's fourth best sales year, topped only by 1955, 1953, and 1952. The 1956 sales were 8% above the 1946-1955 average—but 1956 earnings were far below the average net of $10-million annually for that decade.

- **Toughening Up**—It was a situation that clearly called for hard-headed, tightfisted management—and that's why the old guard couldn't tackle it.

"We knew that some tough decisions had to be made," says a former company official. "We had become a close, family type of company, and it is difficult to get tough with your friends. But the business had changed—it had become a young man's business."

Philco had started out as a "close, family-type company" when five men incorporated it in 1892 as the Helios Electric Co. When, in 1940—after several name changes—it became Philco Corp. and sold its first stock to the public, it was owned by 120 persons.

- **Reconstruction**—Carmine's resigna-

tion as president was the first of a series that took 14 members of the 1955 board of directors out of the company (the board also has been reduced from 22 to 13 members).

There has been another significant change in the board. Three years ago, it included only two "outsiders"—William Fulton Kurtz, a prominent Philadelphia banker, and Charles S. Cheston, an investment counselor. Now they have been joined by Richard C. Bond, president of the John Wanamaker department store; Gaylord P. Harnwell, president of the University of Pennsylvania; and retired Adm. Arthur W. Radford.

Many had felt, a retired officer explains, that the old board was too large and "included so many officers that we were, in effect reporting to ourselves. We needed more outside advice."

During the rash of resignations of Philco brass hats, there were rumors in the trade that the officers involved were being pushed, not jumping on their own. This perhaps was true in one or two cases, certainly not in all.

Most of the group had large holdings of Philco—at one time the group had owned or controlled upward of 30% of the outstanding common—and you just don't shove around such shareholders. Besides, says one of them, "it was a matter of getting the company back on the tracks or ending up with a lot of worthless stock."

• **Top Man**—The new top man, Skinner, came from college to Philco in 1934. His father, then president, started Philco's highly lucrative radio production and shepherded the company through the Depression. When the elder Skinner left after a policy tiff, the son stayed on, worked up through various divisions.

Skinner refuses to discuss the circumstances surrounding his elevation to the top job. This is not very surprising in view of the personality clashes that evidently preceded the switch. Some who fought for the change still speak bitterly of the old management, and at least one former officer is just as critical of the new.

II. What Went Wrong

By 1940, when it first sold public stock, the company had firmly established itself as a leader in the production of home and auto radios. And with prosperity, the "family" spirit burgeoned. Officers and directors of the company, most with large stockholdings, formed what amounted to a Philco community in the Huntingdon Valley area north of Philadelphia.

Bonuses, though modest in comparison with those of some other companies, were spread over a wide base. For example, in 1955 a total of $1,-

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533,000 was distributed to 1,052 executives and salaried employees.

• **Turn for the Worse**—But hard times were coming. They started catching up with Philco after the post-Korean sales boom.

The company loosened up the brakes and soon found itself in a spending surge at a time of rapidly rising costs. Between 1950 and 1956, costs rose from 79.2% to 88.6% of net sales. Other woes of the industry in general—overcapacity and demoralization of the appliance market, plus changes in electronics—also had their impact.

As sales fell off, appliance makers started dumping excess stocks, thus depressing prices. This hurt because Philco production costs were higher than those of some competitors. Sales of big sets tumbled. Table and portable models were still in demand, but these were small-ticket, small-profit lines.

Philco television sales came back a bit last year. With radios and transistors, they accounted for most of the 5% sales increase in 1957.

• **Heavy Drain**—But in the meantime, like most other makers, Philco was developing its own color system. Work on a single-gun color tube piled up research and development costs with few signs of an early payout—but the costs were justified on the basis that the company was developing its own color patent structure. The tube is still in the development stage.

Philco also had some costs not common to the rest of the trade, such as heavy expenditures for development of transistors. This line finally began paying a profit last August, but for several years before that it was just another drain. More money was pouring into development of automation systems for television and radio production.

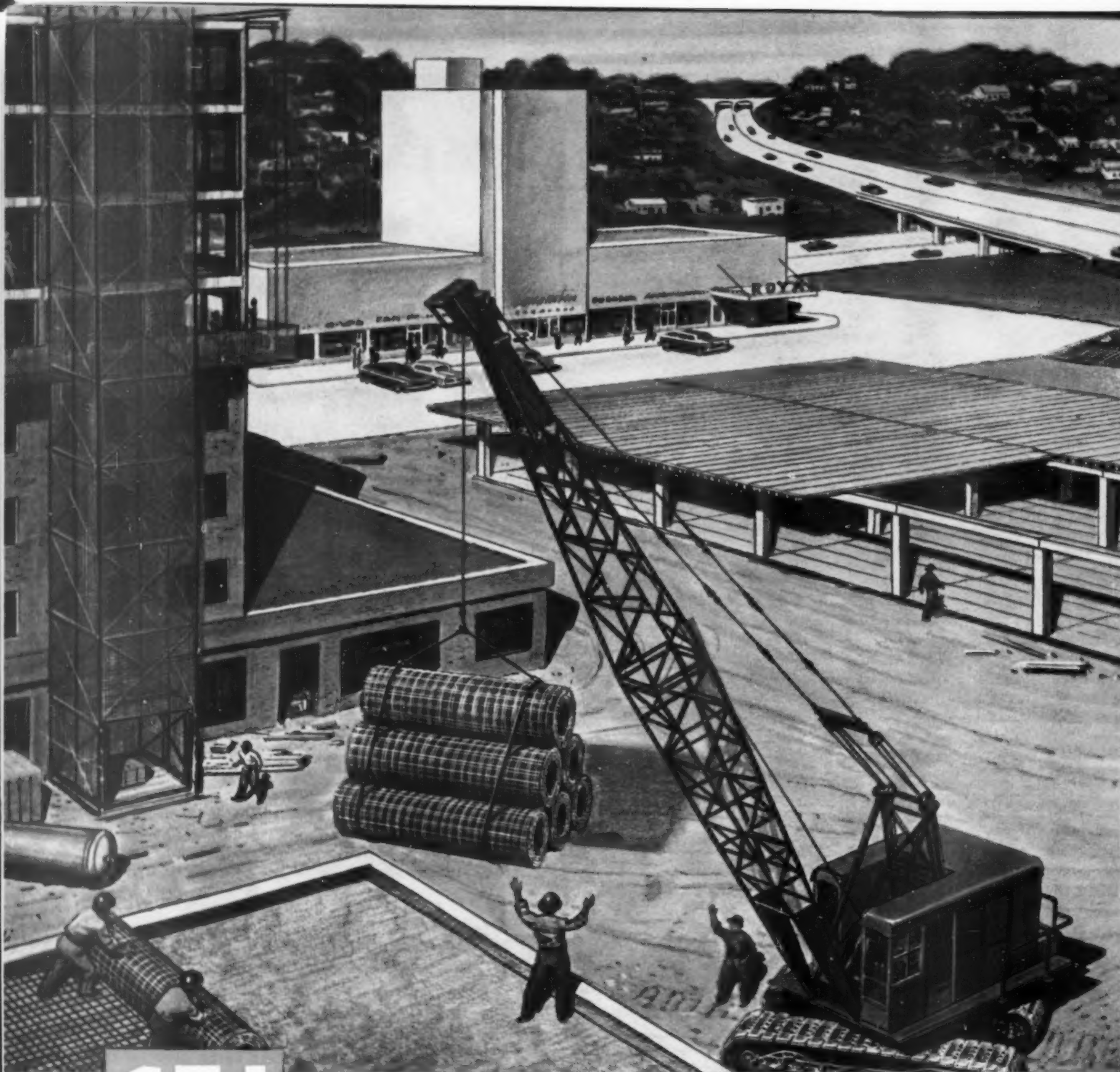
III. Tightening Up the Ship

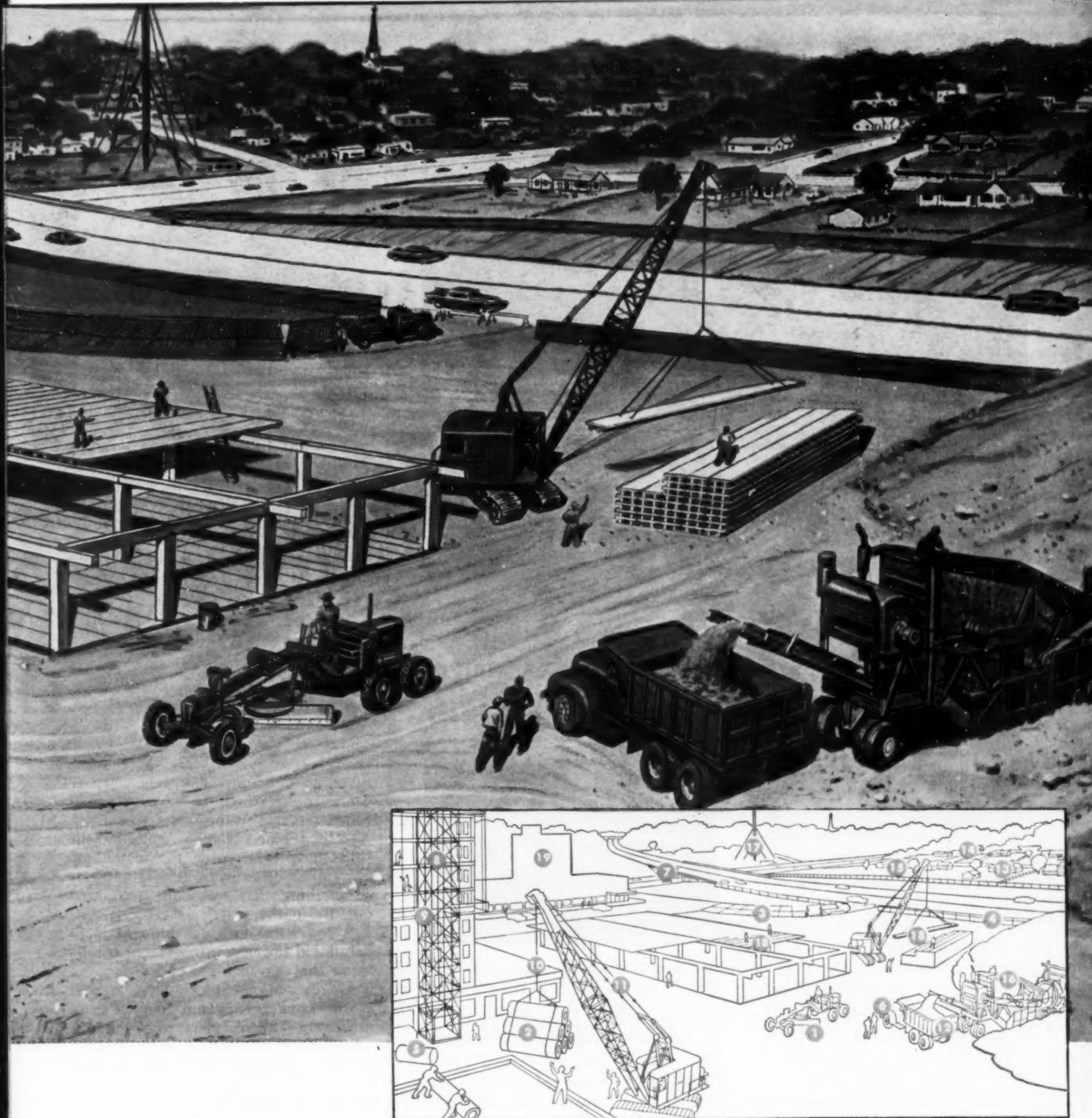
Skinner took over, according to a director, with the understanding that he would launch a broad-scale attack on costs. He did just that. Says a veteran officer, "We hadn't seen anything like it since the tight days of the 1930s."

Skinner made the most impressive saving on civilian inventories. These were cut from a $52.8-million level in 1956 to $41.2-million in 1957. Much of this was accomplished by discontinuing the long-term buying cycles adopted in a postwar period of scarcities. Buying was geared closely to use. Steel and aluminum stocks were worked off, but a small portion of inventory had to be written off.

• **Paring**—Other steps Philco has taken under Skinner's guidance:

• TV production was consolidated in a smaller area in the main Philadelphia plant. The 300,000 sq. ft. saved went to the Accessories Div.,





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which got new materials handling equipment and thus cut its own costs.

• Philco found it was cheaper to buy evaporators and compressors for its refrigerator-freezer line, and stopped making them. So three plants in Bedford, Ind., are on the market.

• After buying Bendix Div. of Avco Mfg. Corp., Philco moved its electric range production into Bendix' Nashville plant, sold the Mt. Clemens (Mich.) range plant to Ford Motor Co. for more than \$1-million.

• A central warehouse setup in Elizabeth, N. J., now houses stocks of four Middle Atlantic Philco distributors. This central pool cut down on stock requirements, made savings in paper work and delivery trucks.

• **Financial Easing**—To save more cash, Philco paid no cash dividend on its common stock this year, distributing instead a 4% stock dividend.

Such savings as these enabled Philco to clean up more than \$18-million in bank loans and pay off—in advance—approximately \$7.5-million in promissory notes issued to cover the Bendix purchase.

These steps went far toward relieving Philco of pressures from its banks and other financial sources. In 1956, it was an open secret that several of its banking connections were "restless."

• **Management Swaps**—Besides the retirements and resignations, there have been a large number of job swaps in first-level and second-level management. Many younger men have been brought to the top of divisions and departments. A retired officer frankly concedes the shifts have been made to "match talents and abilities with job requirements—something that was done too infrequently in the past."

A consulting firm was brought in to help build the new management team—a job that has not yet ended.

• **Compensation**—Stockholders, as well as the bankers, applaud Skinner's approach to Philco's extra compensation schemes.

The company's old incentive plan for directors, officers, and salaried employees was tied to net sales.

Now incentive payments are geared to profits, and profits must equal 6% of the company's capital, surplus, and funded debt before any payments can be made. This prevented any payments last year on 1956 profits—saving the \$2.6-million that could have been paid under the old plan.

Skinner imposed similar restrictions under the profit-sharing plan and trimmed down stock options. None of these programs was far out of line with other companies, but shareholders resented that they were not pared down when the company got into trouble. One says, "Skinner's company-first attitude is downright refreshing." END

In Management

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Waterman Picks Up Cash and Talent By Merger With Kemper Industries

The L. E. Waterman Pen Co., Ltd., looking for money and executive talent, got both in its merger with Kemper Industries, Inc. Kemper—the shell left after the business of Osborn-Kemper-Thomas, advertising specialty house, had been sold to a group connected with Hallmark Cards, Inc.—had $1.3-million in cash and receivables, two employees: Harry J. Hoxby, former president of O-K-T, and John Murnan, former vice-president.

Hoxby and Murnan, shopping for a place to put the Kemper money, figured Waterman a likely spot, **where their background in the advertising specialty business could open a whole new market for the company.**

Before the merger, Waterman bought 60,000 of Kemper's 234,334 shares of common at $5.50. Under the terms of the agreement, the remaining shares, including 45,000 of Hoxby's and more than 15,000 of Murnan's, have been exchanged for $7 par 6% subordinate debentures, convertible between July 10 and Aug. 10 on a 4-for-3 ratio. **If all debentures are converted, the former owners of Kemper would own 29% of Waterman.** Hoxby is now chairman of Waterman's executive committee, and Murnan is presidential assistant in charge of sales.

An unusual aspect of the deal: Kemper holders also got one share of "participation" for each share given up to Waterman. Holders of this participation will share in 75% of any capital gains coming from sales of former Kemper property. The main item involved is a Cincinnati plant carried on the books at $250,000 yet estimated to be worth at least $600,000 more than that figure.

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Businessmen Strongly Oppose Over-Specialization in Business Schools

North Carolina businessmen—73 of them from 33 different industries—have told their state university just what they think a business school should be.

Their report, a synthesis of the results of study groups and individual answers to questionnaires, comes out strongly against over-specialized education. **The executives think undergraduate courses should be split evenly between liberal arts and business subjects, and that the business courses should be of a general type: comparative economics, basic business organization.**

The businessmen do not expect the new business school graduate to be able to fill a specific job. "On the contrary," they say, "it is our responsibility as businessmen to train an employee when he comes to work with us." The fact that small companies may not be able to afford this training time, they argue, should be no obstacle; these companies can always hire away men trained by the larger companies.

But, by general courses the businessmen do not mean theory-oriented work. **They want the student to have experience in practical decision-making, and they want the faculty to have industrial experience** in such areas as "developing a new source of capital, bargaining with an aggressive union representative, knowing the frustration of a competitor's price cutting, paying taxes and then more taxes, and having some workmen who want to work less and less, while he has to work more and more. These are cold facts," the report says. "The answers are not to be found in textbooks, and a professor with a firsthand knowledge would be in a position to be a more effective teacher."

• • •

Olin Mathieson Regroups 11 Divisions To Integrate Product Lines

Olin Mathieson Chemical Corp., hurrying toward an integration of its many product lines ever since its formation in 1954, has finally completed the program. **OM has rearranged 11 of its 14 divisions into four new divisions, each with a broad general area: chemicals, metals, packaging, and energy.** The three remaining divisions (Squibb, Winchester-Western, and International) remain as they were.

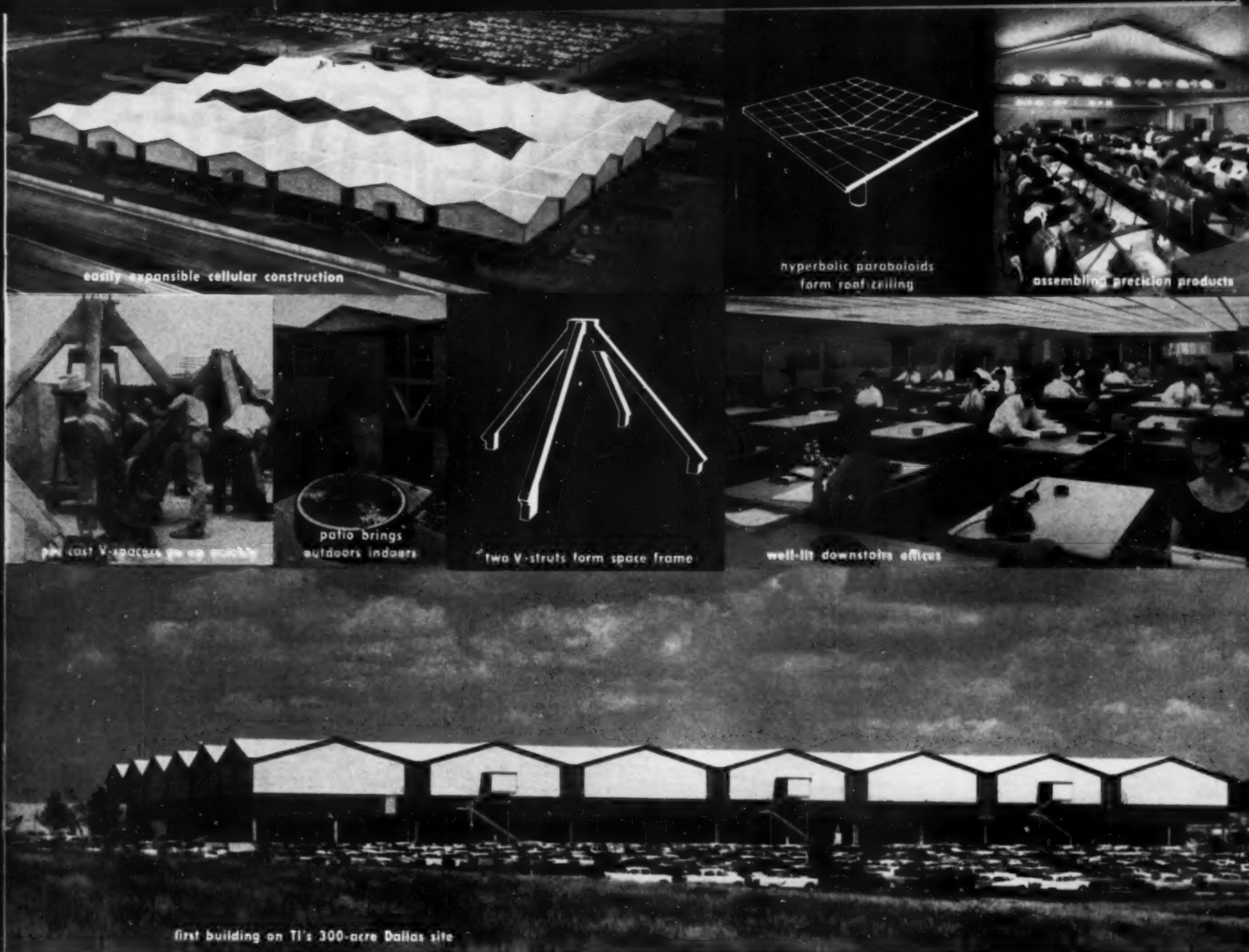
The old divisions, mostly with their old chiefs in command, remain pretty much intact for the present, merely regrouped under larger umbrellas. But **top management's next goal is integration within the divisions.** A salesman for packaging film, for instance, will continue in the present setup to sell only that product, but eventually will represent a full line of packaging materials, including such products as kraft paper.

• • •

Management Briefs

Edward M. Gilbert, a director of Empire Millwork Corp., who says he owns controlling interest in **E. L. Bruce Co.**, producer of wood flooring, will try to get control of Bruce at the Oct. 28 annual meeting without a proxy fight. Gilbert says his holdings and those of Empire total close to one-third of Bruce's 314,600 outstanding shares, and that associated groups own more Bruce stock. But Bruce management denies the claim, reportedly on the suspicion that some of Gilbert's associates sold their holdings when Bruce stock recently soared above $75 on the American Stock Exchange. The stock had been selling at $17.50 in February.

Reserve Mining Co. has gone to court to try to get its disagreements with **Mesabi Iron Co.** out of court. The two companies have long been feuding over accounting methods used under a contract in which Mesabi leased Minnesota taconite land to Reserve in return for a percentage of the profits (BW—Apr.19'58,p163). The matter was in arbitration, but Mesabi's new president, Arnold Hoffman, dropped the proceedings and decided "the best interests of Mesabi require recourse to the courts." Reserve's suit seeks to force Mesabi to take up arbitration once again.



huge new plant for tiny products to

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News, pictures, music, light, heat, cold and thousands of other services to man are borne by streams of electrons crisscrossing the face of the earth. At an almost explosive rate, yesterday's electronic miracles are becoming today's commonplace; are swelling the demand for miniature components such as the transistors, diodes, rectifiers, resistors, capacitors produced by Texas Instruments.

Hence this newest addition to TI's facilities, a seven-acre building of functional character, a pleasant place in which to work, designed for quick change or sudden growth. Flexibility and expansion ease derive from two shapes used here for the first time industrially in the U. S. Concrete "umbrella-roofed" bays form clear floor areas 63 ft wide and up to 147 yd long. Nine-foot V-spacers between the two floors make the some three dozen utilities completely accessible and available to both floors.

This fresh approach to problems is basic at Texas Instruments; leads continually to entirely new products of new materials with new characteristics. It is a technique that has brought the company to the forefront in components, in military and commercial electronic systems, industrial instrumentation, and geophysical exploration. Sales of TI products and services have required nine-fold plant expansion over the last five years to a present ¾-million sq ft . . . resulted in almost 18-fold growth over the last decade.

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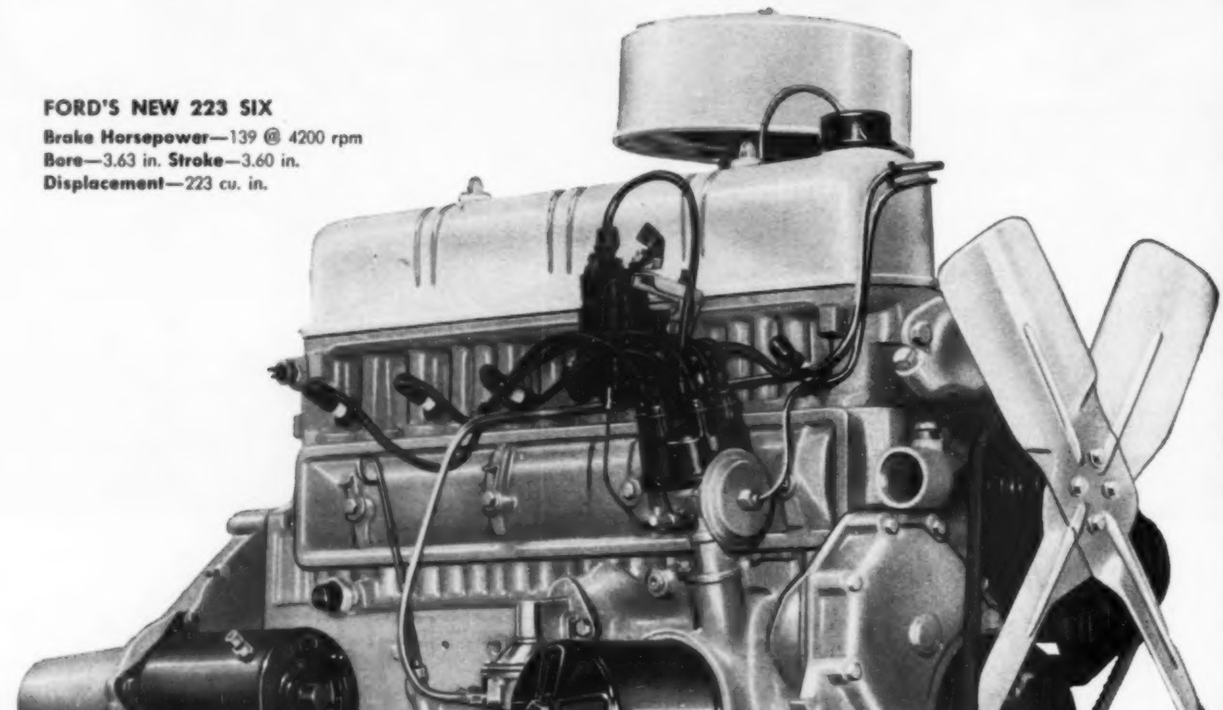

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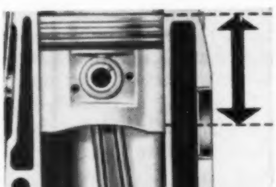
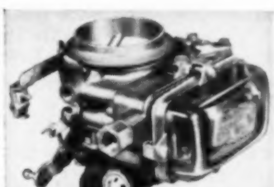
New Ford Styleside pickup. Modern Styleside body is as wide as the cab and *standard at no extra cost*. Conventional Flareside box available.



Short Stroke design means less piston travel, less internal friction—gives more usable power. Provides increased durability . . . prolongs engine life.



New carburetor design gives up to 10% *more* fuel economy. New vacuum control valve and accelerator pump system provide smoother operation.

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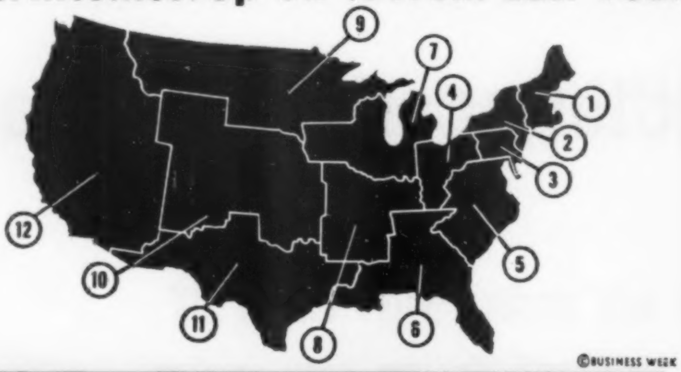
AMERICAN BUSINESS BUYS MORE FORD TRUCKS THAN ANY OTHER MAKE!

CHARTS OF THE WEEK

The Income Pattern:
Business Week's Regional Income Indexes

U. S. Incomes: Up 0.7% From Last Year



Federal Reserve District	% Change vs. year ago	The Indexes Apr. 1958	Mar. 1958	Apr. 1957
1. Boston	0.0	287.6	286.4	287.5
2. New York	+3.3%	311.2	315.8	301.3
3. Philadelphia	+3.6%	309.4	297.8	298.6
4. Cleveland	−2.4%	341.5	342.5	349.9
5. Richmond	−0.4%	377.2	371.8	378.8
6. Atlanta	+0.7%	456.6	452.1	453.3
7. Chicago	−0.8%	358.2	359.2	361.0
8. St. Louis	+0.3%	335.5	335.4	334.4
9. Minneapolis	+2.7%	378.9	372.7	369.1
10. Kansas City	+5.3%	434.1	436.3	412.1
11. Dallas	−1.2%	495.0	496.5	501.1
12. San Francisco	+0.2%	405.4	397.9	404.5
Nation	+0.7%	360.5	359.2	357.9

1941 = 100, adjusted for seasonal; April figures preliminary; March revised.

The Gains Stop Shrinking

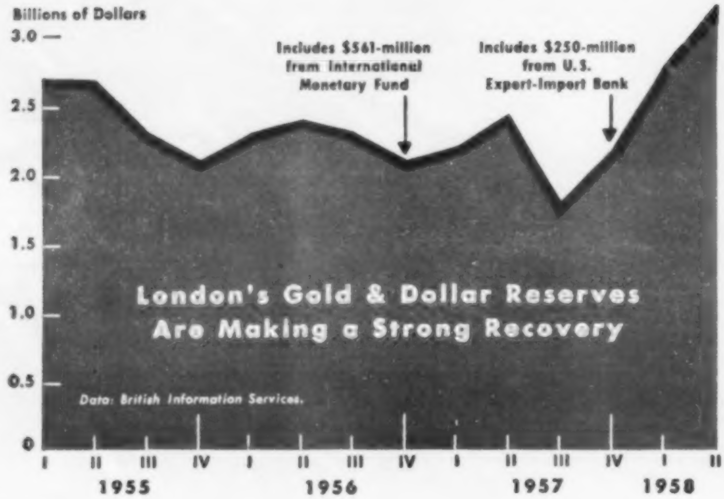
U.S. incomes in April were 0.7% higher than in the 1957 month, according to BUSINESS WEEK's Composite of Regional Income Indexes. This matched the year-to-year gain shown by the revised March figure. Such gains had shrunk steadily for the eight previous months. The leveling off of the year-to-year rate of gain indicates that incomes followed approximately last year's March to April pattern.

In four regions–Cleveland, Richmond, Chicago, and Dallas–incomes in April fell below their year-ago level. The largest gain was in the Kansas City region, helped along by the gain in farm income. Philadelphia and New York incomes also gained considerably.

Compared with March, income in April edged upward 0.4% for the second consecutive month-to-month gain, following six months of decline. Despite the rise in total income, wage and salary disbursements continued to decline.

Five of the 12 regions had smaller incomes in April than in March, with the largest decline 1.5% in the New York region. New York City has suffered declines in employment in nearly all factory industries with the largest reductions in the dominant apparel industry and aircraft. In the Albany area, declines in employment for electrical machinery, ordnance, and primary metals have tended to depress income.

The largest income gain from March to April was 3.9% in Philadelphia, followed by 1.9% in San Francisco and 1.7% in Minneapolis.



Chancellor of the Exchequer Amory counts on strong gold reserves in planning . . .

Year of Expansion for Britain

For the first time in three years, Britain's Conservative government has enough elbow room to ease its tight money policy and let the economy expand a little—a move that should bolster its shaky political standing.

You can see the Macmillan government's new policy shaping up in the reduction of the British bank rate the other day to 5%—against 7% last September. And two days earlier, Chancellor of the Exchequer Heathcoat Amory (picture, above) raised to 30% the share of the cost of new plant and machinery on which industry can win a tax deferment. The next step may be a change in last September's directive "requesting" banks to hold down on granting loans.

To the Conservatives, expansion in 1958 makes both economic and political sense. Economically, British export industries will benefit in world markets if they have more freedom to modernize their plants. Politically, the Conservative Party—facing an election in 1959—stands to regain some of its popularity if it gives more head to business and keeps unemployment, now in a threatening rise, within bounds.

• **Transfusion for Business**—Expansion is also a pleasing prospect to most British businessmen. At the moment, some of the big steel companies are worried over the size of the inventories their best customers have stashed away. About 75% of British manufacturers are working below capacity. Building promoters want a freer hand to push London's office building boom even faster. And with coal surpluses piling up, mine workers are troubled about unemployment for the first time since World War II.

I. A Breathing Spell

It's not mere luck that the Macmillan government is now able to go in for expansion. The credit goes to its tough anti-inflation policy, applied with special vigor since September. This has reduced the pressure on Britain's limited resources and given it some reserve capacity at last. It has also succeeded in slowing the wage inflation that was threatening Britain's position in world markets—and thus putting pressure on the pound sterling.

But some of the elbow room was provided by an economic windfall—the substantial drop in world commodity prices. This has lowered the country's over-all import bill and helped stabilize most domestic prices over the past few months. With the terms of trade swinging in its favor (since its own export prices haven't fallen), Britain this year, for the first time since the 19th Century, is exporting as much as it imports—if you take only the value of the goods it buys and sells and leave out freight and insurance charges. Add the net income from these and other services, and Britain now runs a very healthy surplus on its trading account.

• **Sterling Hardens**—The combination of these developments at home and abroad largely explains why London's reserves climbed sharply this year (chart, above) and why sterling has become almost a hard currency. But the reserves have also gained from two unexpected aspects of the U. S. recession:

• On the one hand, American imports—including those from Britain—have held up extremely well.

• On the other hand, because the recession has somewhat dimmed the dollar's glamor, many European investors (and speculators) have withdrawn funds from the U. S. and deposited them in quantity in London.

Altogether, Britain's financial position is so strong that at their most pessimistic, Amory's Treasury advisers expect nothing worse for the rest of the year than a leveling off of reserves from the normal pressure on sterling in later summer and fall, when British dollar purchases are at a peak.

• **Crisis Upon Crisis**—If things pan out this way, 1958 will be a far better year for Britain than the past three.

• In the late summer of 1955, Britain suffered a reserve-draining foreign exchange crisis, brought on by the overheated domestic boom that began in 1954.

• In the fall of 1956, the Suez crisis led to another drain on London's resources. To stem this one, a large drawing from the International Monetary Fund and a standby credit from the U. S. Export-Import Bank (chart, above) were needed.

• In the late summer of 1957,

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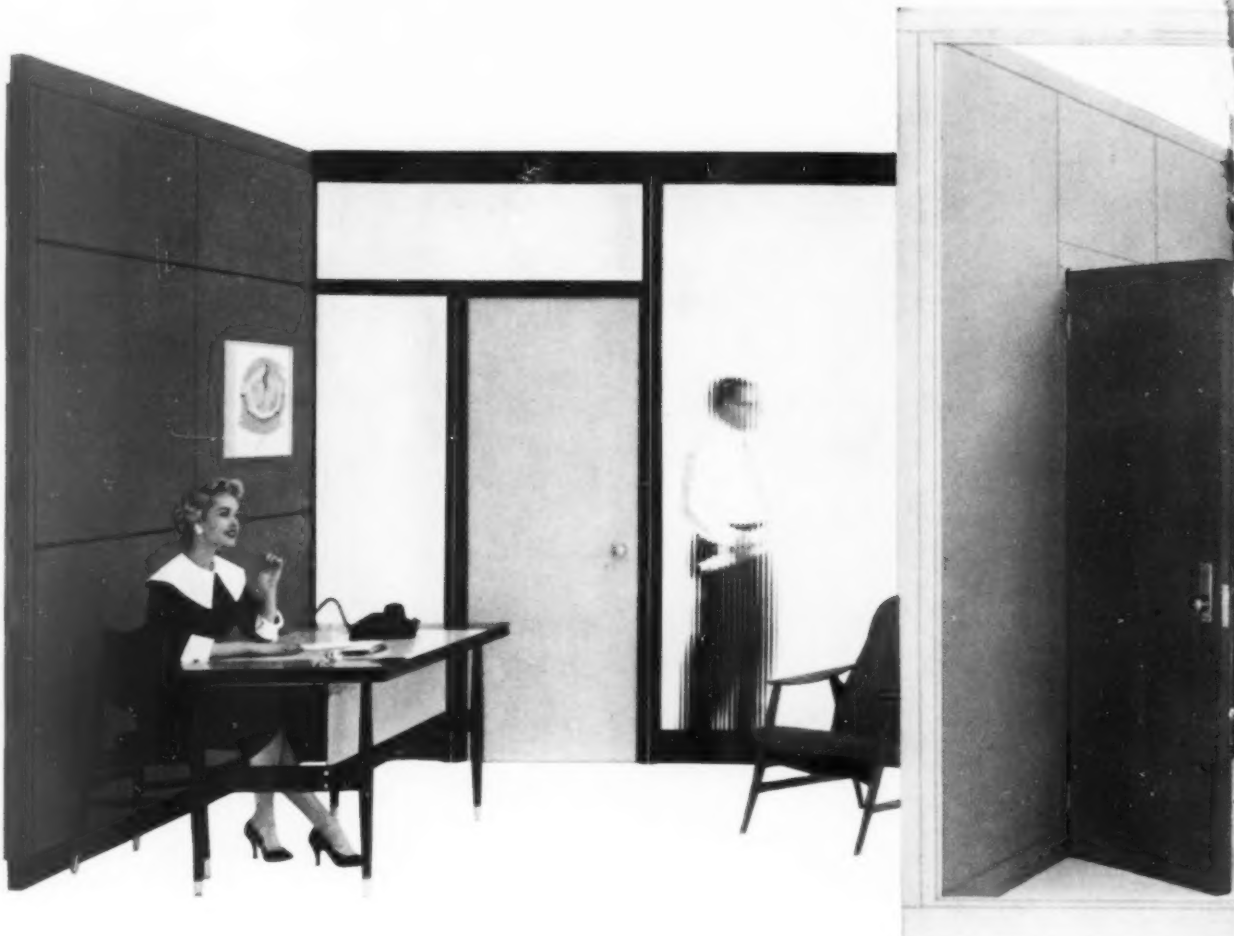

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there was a speculative flight from sterling, induced partly by the devaulation of the French franc and rumors of an upward revaluation of the German D-mark. Basically, though, it resulted from the British government's apparent inability to control wage inflation at home.

After each of these crises, the Conservative government had to tighten its rein on the economy. Though industrial investment kept climbing until the end of 1957, there has been little expansion of production or gross national product for three years. Even so, until the last few months prices were continuing to rise and the internal purchasing power of the pound to drop.

• **Drive for Votes**—This year, however, the Macmillan government is sure it can avoid another financial crisis. Then, from a strong financial position, it hopes to present a politically popular budget next spring. This strategy, if it works, would put the Conservatives in a good position for the 1959 elections.

Some Labor Party leaders are already betting that Macmillan will call an election right after the April budget next year. And they privately admit that the Conservatives might just squeak by.

II. Still Some Danger

Today's better outlook doesn't mean Britain—or the Conservative government—is beyond danger. Even when you include the IMF and Ex-Im credits, London's gold and dollar reserves are still small. Expanding the economy too quickly now could easily upset the present favorable balance of payments. For example, it could draw in extra imports just when the over-all decline in world trade is likely to bring some decline in British exports. It could also set the stage for more wage inflation.

But Amory has also had to think about the political dangers of not expanding. At home, the Conservatives might get into trouble if they stuck too long to a tough policy and pushed the nation into a recession and a politically intolerable level of unemployment—anything above 3%. Abroad, there's the danger Britain might jeopardize its leadership of the Commonwealth. This might happen if the Commonwealth countries couldn't sell their primary products except at prices they considered ruinously low.

• **Lid on Wages**—Take the wage question first. The government decided last fall to hold wages down at all costs. And in this year's round of wage negotiations, a great deal hinged on restricting the nationalized railway workers to a 2% to 3% increase. So until the government settled this issue (at 3%), it didn't dare push an expansion

policy openly. And even now, there may be more tests of the government's ability to limit wage increases.

However, with unemployment beginning to edge toward the politically disastrous 3%, the government is being forced to go ahead with expansion without a final resolution of its wage policy.

• **Overseas Complications**—Amory also had to figure the Commonwealth front. If he looked only at the short-term problem of maintaining Britain's favorable trade balance and a strong pound, there were obvious advantages to continuing the tight rein on the economy. This way, Britain could keep its import bill down and force British manufacturers to look for sales abroad rather than at home.

However, Amory knew this would be dangerous in the long run. On balance, the pressure here, too, was toward a policy of expansion, regardless of the short-term risks. Fortunately, these risks are reduced by the relative strength on London's gold reserves and healthy trade balance. The ample British stocks of coal, steel, and many other basic raw materials have the same effect. This means there should be no repetition of what happened in the 1955 payments crisis. At that time, the British economy sucked in big extra imports of coal, steel, and nonferrous metals.

• **If IMF Expands**—This time, it's unlikely that the Macmillan government will carry expansion to the point where its import bill rises very much—not unless Washington pushes ahead with its plan to enlarge the resources of IMF and the World Bank (BW—Jun.21'58, p26). If this scheme were to go into operation by next spring, the additional reserves available to the sterling area might support an expansion of both Britain's exports and imports.

In fact, since last winter London has been after the U.S. to back an expansion of IMF-World Bank resources. But at the beginning, London expected a serious U.S. recession to slash U.S. imports and lead to falling prices and a liquidity crisis throughout the free world. So the British privately talked up the need to maintain the sterling area's liquidity.

Now, according to some Continental bankers, London is a little embarrassed. There has been no drain on European reserves from the U.S. recession. Already this year the U.S. has exported \$1.2-billion in gold, and a good share of this has gone to London. So the British are now backing Washington's idea of financing underdeveloped countries through an expanded IMF-World Bank kitty and letting the exporting nations get their main benefits indirectly. This, of course, would help the sterling area—and help the Macmillan government pull off its expansion. END

BUSINESS ABROAD BRIEFS

Central America's common market, miniature model for similar trade groupings among South American countries, has moved close to realization. A multilateral free trade treaty has been signed by Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. The countries still must negotiate a specific list of free trade items and decide on the location and types of "regional industries" to be set up.

•

Arab and Western businessmen have almost completed capitalization of MIDEC, the Middle East Industrial Development Corp. (BW–Mar.29'58, p32), formed to develop private industry in the Middle East. MIDEC's board comprises 10 representatives from Western Europe, nine from the Middle East, and one from the U.S.

•

Russia will supply Argentina with more than 7-million bbl. of crude oil at less than going world prices this year and next. Argentina, like Uruguay in its recent oil deal with Moscow, will pay mainly through wool exports and existing credits . . . Buenos Aires evidently signed with Moscow partly to counterbalance local outcries against possible contracts for U.S. oil companies to drill for YPF, the state-owned oil agency. Spurred by Vice-Pres. Nixon's Latin trip, the Export-Import Bank is considering extending credit lines to U.S. companies to sell equipment to state-run oil companies.

•

To shame Japanese companies into spending more money for research and design, the Ministry of International Trade & Industry this week exhibited around 100 products from kitchenware to radios–formerly sold in the U.S. market–side by side with the American or West European originals from which they had been copied.

•

Foreign cars: Communist East Germany has sent a first shipment of 98 Wartburg cars to the U.S. The state-owned auto works at Eisenach makes the small Wartburg . . . Japan's Nissan Motor Co. will begin selling its 4-door, $1,799 Datsun car here in August.

•

The battle to become the capital of West Europe's Common Market has narrowed down to Milan and Brussels, with the latter slightly in the lead.

•

The traditional 50-50 formula for splitting income between oil companies and host countries, shattered by several Middle East deals ranging from 60-40 to 75-25, may suffer another blow in coming discussions between Iraq Petroleum Co. and the Iraqi government.

"Dixielite," a new hot-drink vending cup made by Dixie Cup Division of American Can Company, Easton, Pa.

The flavor lingers longer with a protective coating of Du Pont ALATHON®

polyethylene resin

Good and hot! And it stays that way in new Dixie Cups coated with a Du Pont ALATHON! For the inner coating of ALATHON polyethylene resin adds strength and toughness to the cup, helps lock in the flavor of beverages.

ALATHON is odorless, tasteless and non-toxic. That's why you'll find it used for coating and laminating bags and boxes, cartons and containers for foods. ALATHON resists grease, moisture and bacteria. That's why you'll find it packaging industrial chemicals, cosmetics and pharmaceuticals.

You'll also find film of ALATHON that protects the sweaters and shirts you buy. And ALATHON can be molded into colorful, unbreakable squeeze bottles. Perhaps ALATHON can help you in *your* business! For more information simply clip and mail the coupon below.

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Putting a Sales Idea Into Orbit

IMC's Anthony Cascino (left) and Thomas Ware (right) greet company salesman at "blast-off" entrance to sales meeting.

International Minerals & Chemical Corp. launches its own version of the hard sell.

The razzle-dazzle sales meeting pictured here—Sputniks, smoking rockets, pretty girls, and all—wouldn't have fazed a convention of blase soap salesmen.

But it was a startling experience for 35 industrial salesmen who sell agricultural chemicals—mostly phosphate and potash—to 400 or 500 fertilizer manufacturers around the country.

The event was the culmination of a couple of years of planning by International Minerals & Chemical Corp.'s centralized marketing division. It launched what IMC thinks is a unique application of the hard-selling techniques of consumer goods.

I. Potash Is Potash

In many ways, selling industrial products, particularly raw materials in bulk lots, is a tough job. For one thing, there is the problem of product standardization, with widely accepted grades and specifications. As a result, sophisticated buyers are interested primarily in either (1) price, or (2) personal relationships that have little to do with the business itself.

• **Two Wrongs**—To a primary producer, there are two things wrong with this situation. Any advantage on price is going to be short-lived. As Anthony E. Cascino, marketing vice-president of IMC, puts it: "You can only have the lowest price for five minutes to five hours." On the other score, too often close personal relations with buyers convert the customer into the property of the salesman.

"The customer is our property," says Cascino, "our most treasured asset."

Consumer goods, on the other hand, are able to take advantage of product differentiation that can be glamorized and promoted to millions of customers through the emotional appeals of mass selling.

• **Bold Step**—For years, IMC under Louis Ware, now chairman, has maintained a leading position as a supplier of agricultural and industrial chemicals with prime reserves of basic minerals. That was sufficient as long as the supplier side of the business was para-

BLOW-UP of pamphlet featuring company's "out-of-this-world" services is displayed by glamorous earth-bound maid.

CREW MEMBER of Jupiter-C team listens to his "space pilot" outline IMC's basic promotion ideas.

SALESMEN get their first full look at IMC's "Full Orbit Service" under a ceiling of satellites, missiles, and clouds.

". . . industrial customers are consumers, and, like consumers, they want reasons for what they buy . . ."

IMC starts on p. 70

mount. But as the company grew—from about $50-million in sales in 1948 to over $100-million last year—more attention to demand was needed. IMC had acquired a taste for consumer selling through its successful promotion of Ac'cent, its brand name for monosodium glutamate, which increases food flavors.

Could the industrial end of the business use some of that hard sell? IMC took the bold step about three years ago by hiring Cascino whose background—the rough-and-tumble merchandising field of major appliances—was just about as far from fertilizer as you can get. But with the backing of Thomas M. Ware, who became president earlier this year, Cascino set about translating his knowledge of consumer goods selling to the marketing of carloads and barges of bulk minerals and chemicals.

"Industrial sales efforts," he says, "have been hampered by the concept that products are standardized—possessing neither style nor design—and that customers are unemotional robots who buy strictly according to specifications. We don't buy that. We start out with the basic idea that minerals and chemicals have to be sold."

II. How?

It's Cascino's thesis that industrial customers react just like consumers—in fact, they are consumers and don't alter their basic human drives when they are wearing their business clothes. Like consumers, they want reasons for what they buy.

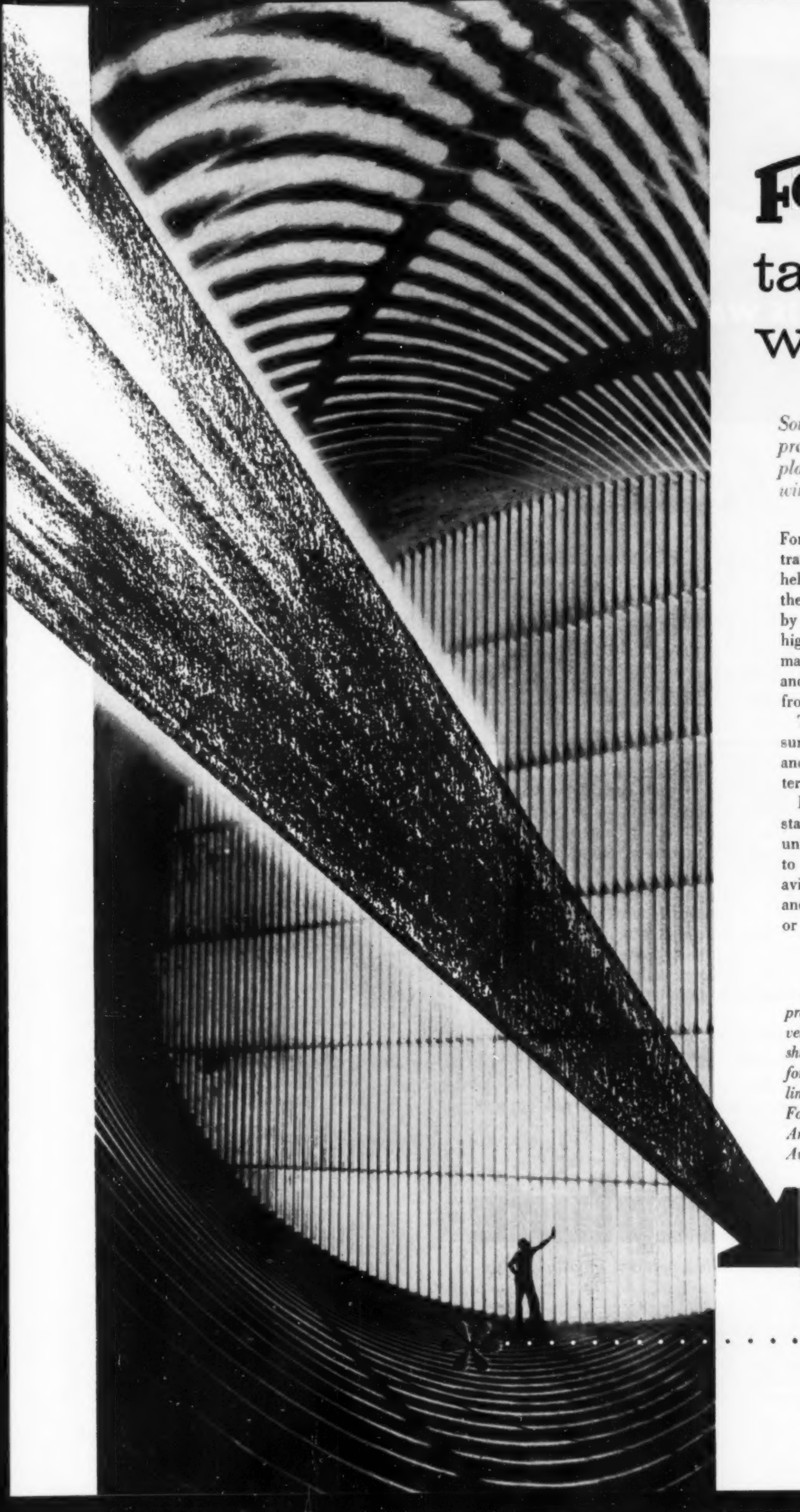
So, says Cascino, "where you don't have product differentiation, you have to provide customers with some other justification for buying your goods."

That was the starting point of IMC's new approach. The first consumer goods technique IMC used was a customer analysis by outside researchers who knew nothing about selling fertilizer.

"Salesmen," he says, "are bad reporters. You always listen to them, but there is never a frank discussion between buyer and seller."

So the outsiders probed IMC's customers to find out what suppliers do for them, what they expect, how various companies rate.

• **Upshot**—The results showed that fertilizer manufacturers felt they weren't getting the kind of services they thought they should from the industry. Where



they most wanted help was in technical assistance; how to determine what and where their market is; how to communicate with their own customers by advertising, sales promotions, meetings, direct mail; how to handle general management problems without big overhead; where they could get advice on transportation costs—which, in the fertilizer business, can exceed the cost of material.

Some of these services were being provided, or at least were available, by IMC and its competitors. But no one was getting much recognition for them.

III. The Gimmicks

That's where another consumer goods technique entered the picture. IMC decided to dress up its services in a package that customers would readily identify with the company.

About this time, all the talk was about Russian Sputniks, missiles, orbits, space. "The moon," says Cascino, "is not so far away as we once thought."

The result: IMC officially put its Full Orbit Service into the hands of its salesmen at the meeting last month in Chicago's Sheraton Hotel.

• **Other Plugs**—But more than gimmicks went with the name.

IMC drafted a series of books on subjects about which fertilizer manufacturers had expressed interest.

"These books," says Cascino, "aren't generalizations or abstractions. As qualified experts who manufacture and sell fertilizer as well as raw materials, we were able to make the books specifically apply to the fertilizer business."

Thus far, IMC has books on market analysis, the staging of meetings, sales manpower requirements and selection, and a 100-page detailed look at advertising and promotion. In addition, there are two books outlining what IMC has available on technical problems and the tricky business of transportation.

• **Into Orbit**—This was the package handed to the salesmen at the "blast-off" meeting. After their first blinking realization of what was happening, they broke up into teams—named Thor, Atlas, Vanguard, Jupiter-C, and Redstone, each with a "space pilot"—and for two days poured over the information in the books. A quiz at the end tested how well they digested the information.

"These books," says Cascino, "can help a customer handle day-to-day questions that pop up. They are always there, too, to remind him that it's IMC to which they can turn. But, just as important, they make our salesmen proficient in the areas where the customer has said he wants help. Our IMC man becomes his personal confidante in business—not just a fertilizer chemicals salesman." **END**

Customers of 49 Class I railroads can now enjoy damage-free shipping* by specifying DF-equipped cars
*At no extra cost
T.M.
The "Kid Glove Treatment"T.M....
locks in lading... eliminates damage and dunnage
EVANS PRODUCTS COMPANY
Plymouth, Michigan
EVANS PRODUCTS COMPANY also produces:
Truck and bus heaters • bicycles and velocipedes
"Evaneer"® fir plywood • fir lumber • "Evanite"® battery separators
Evanite hardboard • Evanite plywall
Haskelite building panels, Plymetl, and doors

In Marketing

• • •

Furniture Dealers at Chicago Mart Eye New Designs, But Buy Less

The Chicago furniture market showed signs this week of being more a place to display new designs than a place to sell furniture. Attendance was nearly as good as last June, but traffic in the showrooms was light.

By the end of the first week, it was obvious that dealers weren't replenishing inventories, already down 7% to 10% from a year ago. Inventories could go down another 4%, thinks Roscoe Rau, executive vice-president of the National Retail Furniture Assn.

Manufacturers had steeled themselves to expect less buying, so weren't too let down.

Prices held fairly firm, particularly on medium- to high-priced merchandise. This hasn't been true at retail, says Rau, where prices often have been slashed 10% to 15%. Carpet manufacturers, too, cut from 3% to 5%, off their higher-priced lines.

Keynote of the new lines was more value for the same money. Most manufacturers in the medium- to high-priced range showed new promotional furniture, featuring better styling at moderate prices. These were the hottest products in every showroom. Many companies were offering longer lines, with heavy stress on "correlated" pieces and fabrics. A few were offering fewer designs and patterns to save money.

Contemporary styling at promotional quality led sales at the show, but there's a definite trend toward traditional.

Several important trends appeared to be growing:

Group buying is on the increase. Groups represent anywhere from eight to 24 stores to get the advantage of bulk buying. But even these groups seldom placed large enough orders to get a price break.

Dealers today want to buy close to home and closer to their selling season. With retail sales off 8% to 10% —and as much as 18% in distressed areas—dealers won't tie up money in additional inventory.

The drop in attendance of buyers from the Southwest and the West Coast reflected the growing strength of the regional markets, such as Dallas and San Francisco. This, plus plans for new markets, raises doubts about Chicago's continued status as a national market, and provides new fuel for the old argument over how many markets the industry should hold—and where (BW—Jan. 12'57,p112).

Furniture people are concerned over the industry's dwindling share of the consumer dollar. One recent study shows that furniture has lost one-seventh of its market between 1948 and 1957.

New designs aim to spur consumer buying. But these cause trouble. Manufacturers say dealers won't promote a design more than once. Dealers complain it's almost impossible to reorder a style a year after its debut. And the consumer, confused, is almost scared to shop for furniture.

A new educational program was voted at the market to persuade the consumer to buy. Aim is to get about $1-million. Retailers would add a small percentage to their payments to the manufacturer, would presumably collect in higher retail prices. There's a question, though, as to how well retailers will cooperate.

• • •

Sunbeam, Dormeyer Prune Their Lists Of Wholesalers as Fair Trade Fades

In the wake of fair trade's collapse in small appliance marketing, manufacturers are making changes in their distribution policies (BW—Jun.21'58,p55). Last week, Sunbeam Corp. and Dormeyer Corp. revealed they were lopping off wholesale distributors. In addition, Sunbeam is asking remaining distributors to sign an agreement setting forth the functions that the company expects from its wholesalers.

Behind the moves is a decrease in the number of retailers handling small appliances. Sunbeam's vice-president and general manager, C. C. Mendler, attributes this to "confusion . . . in the marketplace" following fair trade's disappearance. The result, says Mendler, is that "there are too many Sunbeam distributors in proportion to the number of active Sunbeam retailers."

Maurice Lipsich, general sales manager at Dormeyer, adds that price stabilization was the big factor in his company's decision to cut down on wholesalers.

Sunbeam's distribution agreement is new for the company, which in the past has had an informal relationship with its distributors. The agreement asks distributors to furnish such services as: salesmen to call on retailers, adequate warehouse space, facilities and stock, extension of credit, prompt deliveries, and sales aid to retailers. In addition, it defines the geographic area in which the distributor is to operate.

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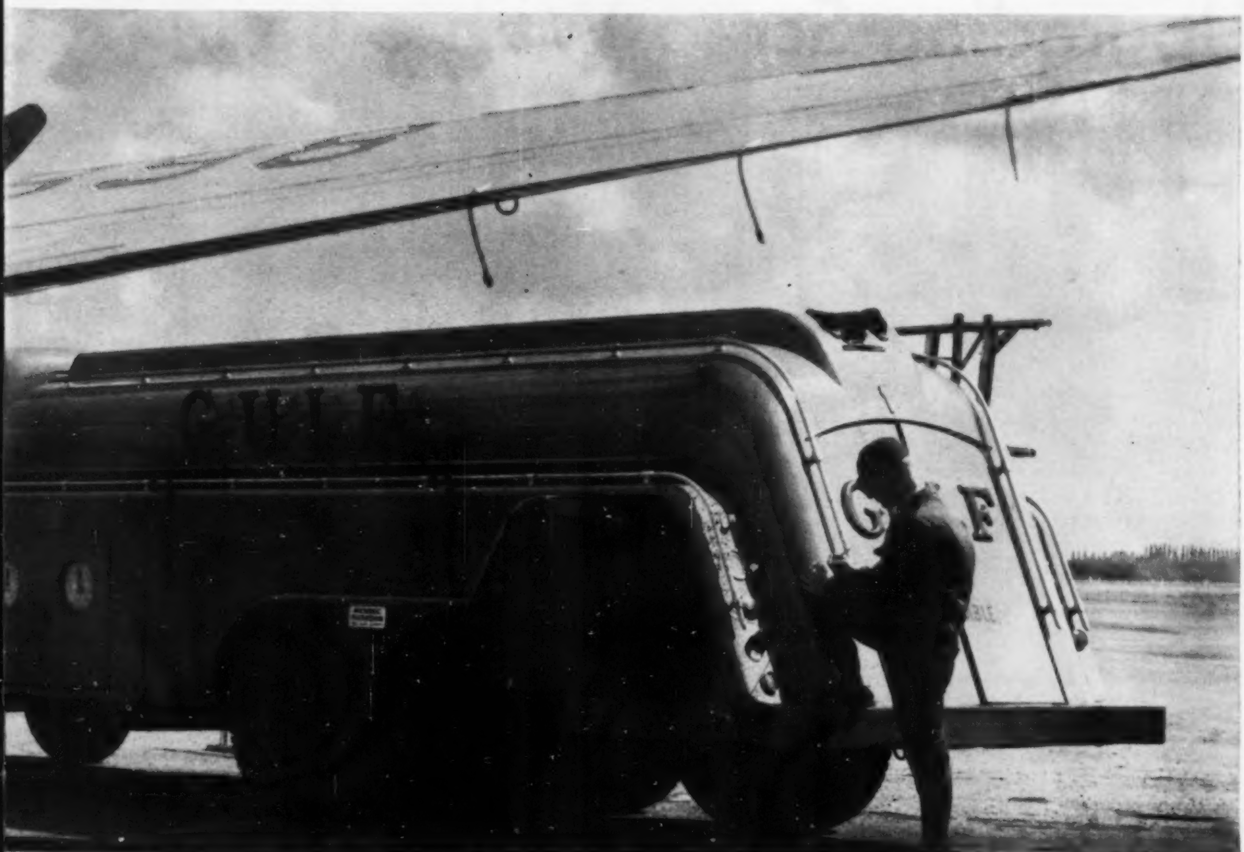
Tire Industry Has Mixed Feelings Over FTC'S New Advertising Guide

The Federal Trade Commission's Tire Advertising Guide (BW—Jun.7'58,p36) is causing some soul-searching in the tire industry. **There is at least a possibility that FTC's move may set a precedent for other industries.**

The tire guide is unique in that it spells out in six-page detail just what descriptions and labels the industry (including distribution channels) may use in tire ads. It aimed at a specific situation, which independent tire dealers—and even manufacturers—grant existed: an overdose of misleading ads. First-line tires might sell as the de luxe line, for example, but the lowest quality might sell as "super de luxe."

Some tire makers think the new guide a very good idea. Others feel that some of the guides are too restrictive, particularly those dealing with ply ratings and guarantees. Tire makers also are concerned with what may happen if a big independent dealer—who isn't in interstate commerce—disregards the new guide.



for tires of tomorrow

Here are some of the places Photography can work for you—

a few minutes with this check list can give you suggestions that could mean extra profits

- ☐ **Management**—Progress photos, Stockholder reports, Record preservation, Information distribution, Control and Organization charts
- ☐ **Administration**—File debulking, Purchase schedule, Office layout, Interior decoration, form printing
- ☐ **Public Relations**—News releases, Institutional, Community relations, Public service
- ☐ **Personnel**—Identification photos, Job description, Orientation, Payroll records, Employee personnel records, House organs, Health records, Bulletins
- ☐ **Training and Safety**—Safety campaigns, Teaching, Reports, Fire prevention
- ☐ **Engineering**—Drawings, Specification sheets, Drawing protection, Pilot radiography
- ☐ **Production**—Time study, Work methods, Legible drawings, Schedules, Process records
- ☐ **Product Design & Development** Styling, Consumer testing, Motion studies, Stress analysis, Performance studies
- ☐ **Advertising**—Advertisements, Booklets, Displays, Dealer promotion, Television
- ☐ **Service**—Manuals, Parts lists, Installation photos, Training helps, Records
- ☐ **Research**—Reports, Flow studies, Process charts, Library, Photomicrography, Electron-micrography, x-ray diffraction, High-speed motion pictures, etc.
- ☐ **Testing & Quality Control**—Test setups, Reports, Standards library, Radiography, Instrument recording
- ☐ **Warehousing & Distribution**—Inventory control, Damage records, Waybill duplicates, Flow layouts, Packing & Loading records
- ☐ **Purchasing**—Schedules, Duplicate engineering prints, Specifications, Component selection, Source information
- ☐ **Sales**—Portfolios, Dealer helps, Sales talks, Price & Delivery information
- ☐ **Plant Engineering & Maintenance**—Plant layout, Repair proposals, Piping & Wiring installations, Progressive maintenance, Record debulking

Send for free booklet. These books show how photography is being used today. *Photography in Marketing, Photography in Administration, Photography in Engineering, Photography in Plant Operation.* Write for the ones you want.

Kodak

PRODUCTION

Upgrading Scrap With a Bang

JUNKED AUTOS and even lower grade steel scrap move toward the "room" where Proler Steel Corp.'s noisy process will reduce them to handy-sized fragments.

The messed-up autos and other low-grade steel scrap in the top picture make tough chewing for the hardiest steel mill. But in Proler Steel Corp.'s Houston plant a mysterious, steel-walled room is gobbling up the junked autos whole, grinding them up with an ear-shattering crunch that sounds to one observer like the end of the world, with cannon fire thrown in for good measure—and turning them out 15 sec. later in the easily handled sizes in the lower picture.

What goes on behind the room's thick steel walls (they're of 2-in. plate, at one guess) is a carefully guarded secret—Proler's patents are still pending. But the new process Proler has developed looks rather revolutionary to some steelmen.

After the pile of handy fragments comes out of the mystery room, these are subjected to heat treatments, then electromagnetic separation of the steel fragments. Finally, conveyor belts carry the now high-grade steel scrap to one hopper, the nonferrous remainder to a rubbish heap.

• **Aim**—All Proler will say about its "room" is that it's not a hammer mill. It's known that the plant cost somewhere in the area of $2-million, and that it is a pushbutton operation.

Its purpose is to beat the problem ordinarily faced by steel mills that use junked autos and other lower grades of scrap, in coping with unwieldy bundles of flattened machinery, shot through with brass, copper, aluminum, rubber, wood, and glass, and ridding this of nonferrous rubbish.

Proler claims its process turns out scrap that contains steel in the 90% range, compared with 65%-80% in the normal bundled scrap. That means a trade rating of No. 1 or better, compared with No. 2 for bundled scrap.

• **Armco Contract**—Armco Steel Corp.'s Sheffield Div. has contracted for Proler's entire output—between 500 and 1,000 tons of processed scrap per day. For Armco, that means a 2.5% greater return from each open hearth, Proler claims. For Proler, it means a per-ton price for scrap that runs $8 to $10 above ordinary baled scrap.

To keep going full blast, the plant will have to draw old autos and other junk from a 500-mi. radius; it takes about 60 autos to make a carload of Proler scrap. The plant can also cope with such appliances as refrigerators and washing machines, usually left out because of the difficulty of burning away porcelain parts. END

THE BOSS, Sam Proler, fondles his product, now sorted out as high-grade scrap.

GO OUT AND BUY YOUR ADVERTISING A BUSINESS SUIT!

DON'T see you around the locker room as much these days. Or relaxing at banquets. And you forgot all about that Florida vacation last winter, didn't you?

Good-bye, "come-easy" years! Right now, you're strictly business with a capital "B." Management is sitting on costs like a mama hen – plant, office, everywhere. Every sales expense, especially, must stand up and be counted.

The trick: *Out-sell the competitor without out-spending him.* Your good judgement tells you to spend less on entertainment, more on travel . . . to make fewer social calls, more sales calls. And now is the time to demand the same business-like performance from your *advertising.*

Is your business or industrial advertising tipping its hat to housewives, loitering in barbershops, boring bus drivers, sitting in doctors' waiting rooms? Is it clothed in "relaxation" media? *Buy your advertising a business suit* . . . well-wearing, strictly-business Business Week.

"For management only," cover-to-cover . . . not one copy sold on newsstands . . . the most business news . . . the maximum management readership per advertising dollar among all general, general-business, and news magazines.

Each precious advertising dollar travels farther in Business Week . . . makes more bonafide *business* calls. Knowing this, the hard-headed, business-like professionals of advertising have made Business Week the advertising leader for seven straight years. *Check the boxscores!*

YOU'RE SO *RIGHT* WHEN YOU RECOMMEND BUSINESS WEEK . . . WHEN YOU WANT TO INFLUENCE MANAGEMENT MEN

THE TOP 10 MAGAZINES

Total Advertising Pages

1951

BUSINESS WEEK	**4,636**
The Saturday Evening Post	4,362
Life	4,053
Time	3,809
The New Yorker	3,619
Newsweek	2,900
Vogue	1,956
Better Homes & Gardens	1,725
Good Housekeeping	1,722
Collier's	1,718

1952

BUSINESS WEEK	**5,502**
The Saturday Evening Post	4,194
The New Yorker	3,921
Life	3,815
Time	3,562
Newsweek	3,049
U.S. News & World Report	2,264
Popular Mechanics	1,789
Vogue	1,691
Better Homes & Gardens	1,616

1953

BUSINESS WEEK	**5,756**
Life	4,294
The Saturday Evening Post	4,186
The New Yorker	3,971
Time	3,561
Newsweek	2,962
U.S. News & World Report	2,569
Popular Mechanics	1,868
Better Homes & Gardens	1,820
Fortune	1,770

1954

BUSINESS WEEK	**5,469**
Life	4,197
The New Yorker	4,186
The Saturday Evening Post	3,687
Time	3,268
Newsweek	2,819
U.S. News & World Report	2,760
Vogue	1,697
Popular Mechanics	1,690
Fortune	1,673

1955

BUSINESS WEEK	**6,663**
The New Yorker	4,529
Life	4,398
The Saturday Evening Post	3,687
Time	3,302
U.S. News & World Report	3,021
Newsweek	2,954
Vogue	1,709
Popular Mechanics	1,655
Fortune	1,638

1956

BUSINESS WEEK	**6,664**
The New Yorker	4,937
Life	4,655
The Saturday Evening Post	3,508
Time	3,450
Newsweek	3,251
U.S. News & World Report	3,204
Fortune	2,034
Vogue	1,799
Sunset	1,720

1957

BUSINESS WEEK	**6,024**
The New Yorker	4,984
Life	4,218
Time	3,361
Newsweek	3,350
The Saturday Evening Post	3,301
U.S. News & World Report	3,084
Fortune	2,244
Vogue	1,851
Look	1,765

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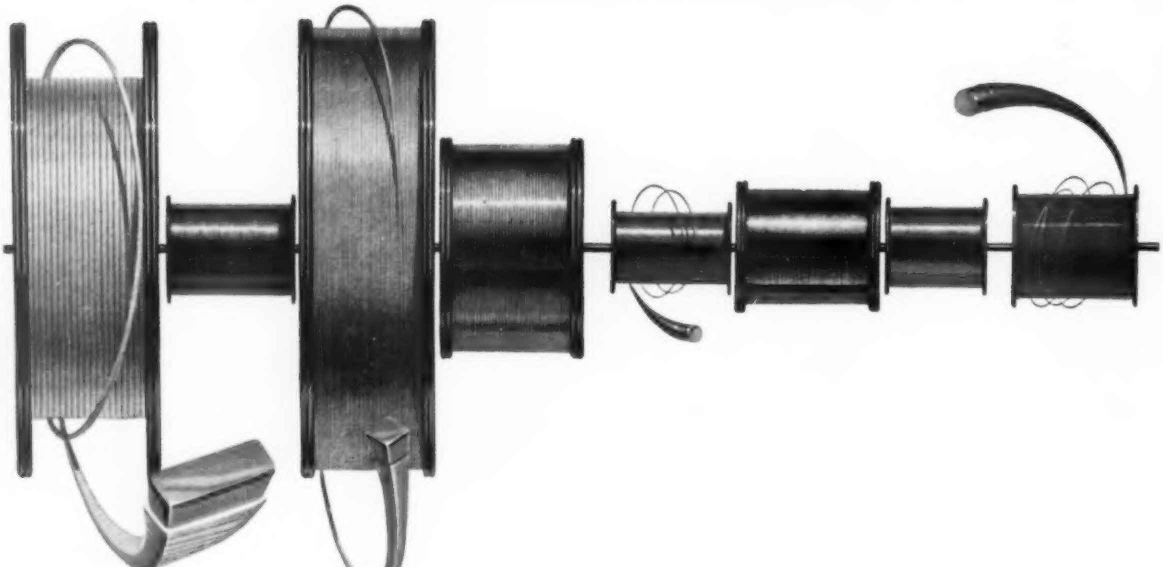
Source: Publishers Information Bureau (Excludes trade, technical and industrial publications).



INTERNATIONAL OUTLOOK

BUSINESS WEEK
JUNE 28, 1958

A BUSINESS WEEK
SERVICE

The future of Lebanon—and of Western influence in the Middle East—hangs in the balance. At midweek it looked as if the Lebanese crisis could end in only two ways: **Either there will have to be political concessions to the rebels by the pro-Western Chamoun government, or there will be a military showdown that could involve U. S.-British intervention and sabotage of oil pipelines.**

This week, too, **Soviet foreign policy has hardened even further, promising general tension around the world.** On Wednesday, Moscow withdrew from the Geneva talks on nuclear test suspension, slated to start July 1. **These talks were to be the first step toward a summit meeting.**

Washington at midweek was keeping mum about the conditions that might lead to direct U. S. intervention in Lebanon. **U. S. officials still were hopeful that U. S.-British intervention could be avoided.**

They hoped that the United Nations, by organizing a special police force, would be able to seal off the Lebanese rebels from the assistance they've been getting from Syria. **This might create a military stalemate in which a political compromise—such as the replacement of Pres. Chamoun by a more neutral leader—would become possible.**

Washington has been anxious to avoid American military involvement. This would risk further antagonism against the West from most of the Arab world. **It could entangle the U. S. militarily in the Middle East—and possibly bring a head on clash with the Soviet Union.**

Just how the U.N. could seal off Lebanon's borders with Syria, wasn't clear at midweek (map, page 27)

Lebanon called officially for an armed U.N. force to close the borders. **But there seemed little hope of effective Security Council action on this because of an almost certain veto from Moscow.**

Washington figured, though, that an emergency session of the General Assembly could call for an international force like the one used in the 1956 Suez crisis. But U. S. officials felt that merely increasing the size of the U.N. observer teams in Lebanon might turn the trick. That's if Nasser proves willing to back down some.

Washington, in fact, feels that Nasser has become worried by the new tougher Soviet line, and wary of getting too deeply involved with Moscow.

Still, at midweek you couldn't rule out the possibility that the rebels would force the Chamoun government to ask for direct U. S. help, and get it.

That, of course, would mean rebel sabotage of Western pipelines running through Lebanon and Syria. But these pipelines carry only 25% of the Middle East oil moving westward. So if Nasser didn't shut the Suez Canal, there would be no oil crisis in Western Europe.

—•—

Moscow's withdrawal from the Geneva talks is just one more sign of the changed Soviet mood. It comes on top of the break with Tito, the execution of former Hungarian Premier Nagy, a week of retaliatory riots against Western embassies in Moscow, and threats of action against any Western intervention in Lebanon.

As Washington sees things, Kremlin **opposition to Khrushchev's foreign policies probably explains the shift.** It looks as if Khrushchev

oversold his policies to the Soviet hierarchy. Now, with few gains to show, he is being forced to return to Stalin's tough line.

Washington sees these reasons for the switch: Khrushchev has failed to split the allied camp or to win a summit meeting that would ratify Russian postwar gains. He hasn't consolidated his original gains in the neutral countries. In the satellites, de-Stalinization has led to a weaker hold over Poland and has failed to bring Tito back into the camp. **At home, Khrushchev has done better, but still hasn't made real headway in solving basic economic problems.**

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France's ties to NATO will be on Premier de Gaulle's mind during the next 10 days. The General is playing host this weekend to British Prime Minister Macmillan and, a week later, to U. S. Secy. of State Dulles.

These official visits indicate that de Gaulle wants France to stick with NATO, not try to play an independent role between East and West. But that doesn't mean that de Gaulle will be satisfied with the present NATO setup. He will ask Macmillan and Dulles for:

- **A bigger say for France** in decisions about NATO strategy. (Up to now the major decisions have been made jointly by Washington and London.) In addition, de Gaulle will insist that France become a nuclear military power. He may even ask that the U. S. and Britain help speed French nuclear developments.
- **Backing from Washington and London** for whatever settlement he works out in Algeria. De Gaulle can count on this so long as his North African policy offers a reasonable prospect of success. For peace in Algeria would greatly strengthen NATO. It would remove the Communist threat in North Africa and give France a chance to pull its weight in NATO's European defenses.

Meanwhile, Finance Minister Pinay's "gold" loan (BW—Jun.21'58, p124) has drawn $65-million of hoarded gold into government coffers. This is no mean achievement, considering the attraction the yellow metal has had for most Frenchmen. In 1952 Pinay managed to get only $40-million in gold from a similar loan.

But at midweek, Pinay's take still fell far short of the $200-million that some Finance Ministry officials originally hoped for. So Pinay may try to raise $100-million from private banks in West Germany, Switzerland, and the U. S.

The one thing Pinay swears he won't do is ask the U. S. government for an emergency loan. His line is this: The government may be poor, but the country is rich. France must put its own house in order. Only then would he consider going to the U. S. for help. And it would be for a stabilization loan—not to be spent, but to be kept as a shotgun in the closet.

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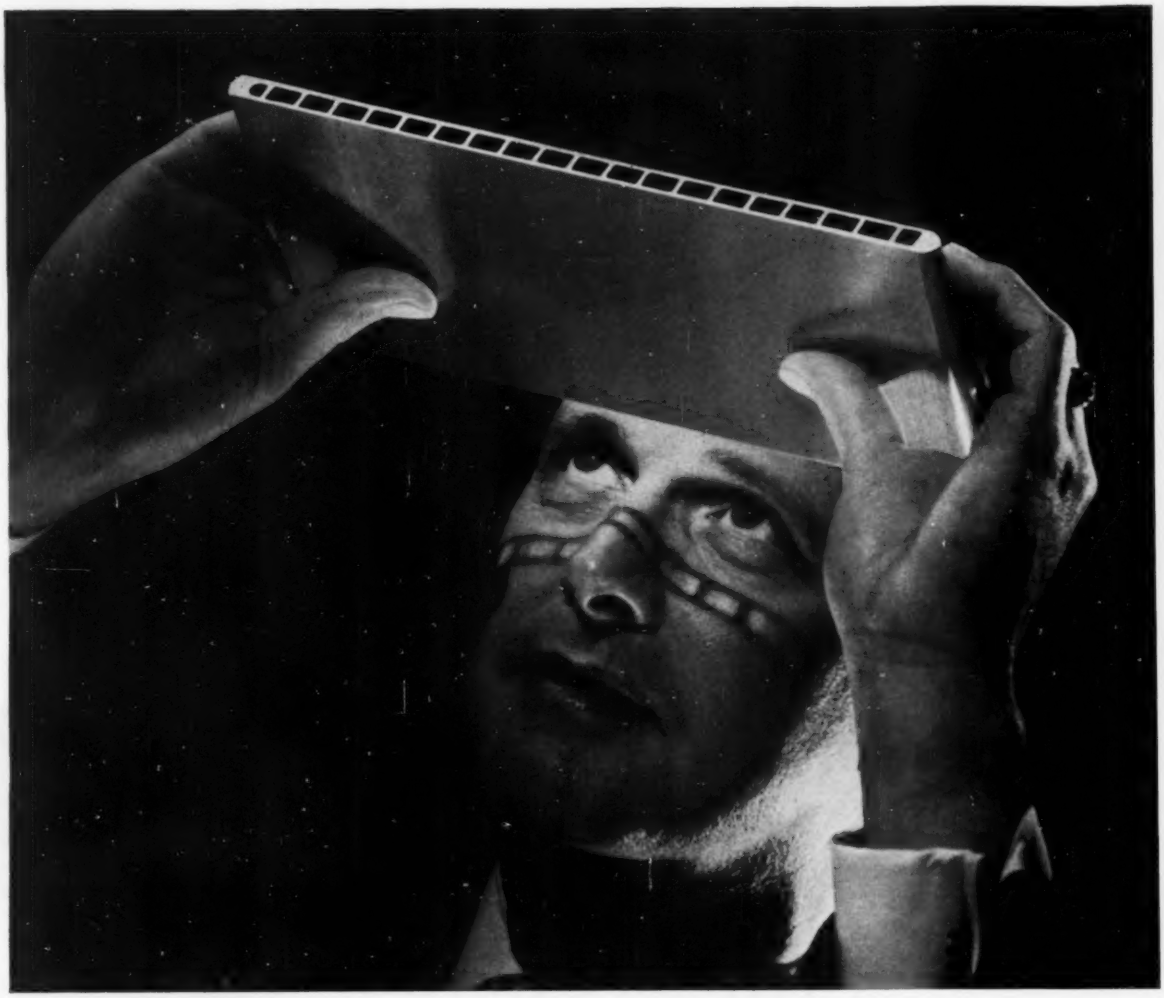
Bonn is pushing the development of West Germany's capital market. A new law eases taxes on distributed profits. That makes it more profitable for investors to put their money into securities. In addition, the government is moving toward freer convertibility of Deutschemarks into other currencies, which would increase the capital flow in and out of Germany.



Its rivers . . . White River, St. Charles.

. . . its mountains . . . Maumelle Dam site at Pinnacle Mountain.

. . . its people. The wedding of Mr. and Mrs. August Zajac at Marche.

From the 100 page Photographic Essay of Arkansas, this incisive portrait of Arkansas is volume three of the forthcoming authoritative Arkansas Encyclopedia. Industrial executives concerned with future plant locations may reserve a set of the Arkansas Encyclopedia now with no charge by writing Dept. BJ, The Arkansas Industrial Development Commission, State Capitol, Little Rock.

ARKANSAS

In Washington

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Disgruntled Refiner Asks Court To Invalidate Curbs on Oil Imports

A Houston refining company is challenging the legality of the government's voluntary program for limiting imports of crude oil.

Eastern States Petroleum & Chemical Corp. has filed suit in a federal district court in Washington, D. C., asking that the program be declared invalid. The company also has asked an immediate injunction pending settlement of the case.

Company attorneys said the voluntary program—by which the government tries to keep crude oil imports under 933,100 bbl. a day—is illegal because:

- The President never has found that such imports threaten the national security.
- The government's executive branch is usurping legislative powers by curbing imports.

Eastern States brought its court action after the military petroleum supply agency refused to accept any more jet fuel from the company under a $1.1-million contract signed in May. Military buyers said they were required by a recent executive order to refuse any petroleum product not refined wholly from U.S. crude or not imported in compliance with the voluntary program.

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Federal Fair Trade Law Advocated By Small Retailers at Senate Hearing

Assorted retail groups debated the pros and cons of discount houses and the changes they have worked in retail selling before a Senate Small Business subcommittee this week. The object is to build support for a fair trade bill introduced by the subcommittee's chairman, Sen. Hubert Humphrey (D-Minn.), who is a former retail druggist.

Many small businessmen, particularly in the appliance and drug fields, feel Congress should adopt a strong federal fair trade law—permitting manufacturers to establish resale prices—to replace the crumbling patchwork of state laws.

Spokesmen for sporting goods and household appliance retailers blasted discount houses as violating the "basic rules of the game." Sporting goods retailers said discount houses are selling expensive brand name fishing rods and reels at half list price, leaving regular retailers "to sell as many fish hooks as we want."

General Electric Co.'s Housewares & Radio Receiver Div. (small appliances) warned that loss of adequate margins—such as occurred when it went off fair trade—inevitably leads to concentration of brands in the hands of fewer, bigger dealers.

But Stephen Masters, president of the booming Masters, Inc., discount chain, said a federal fair trade law merely would provide an "umbrella for lazy, inefficient retailers." Claiming "hard work" as the success formula for discount houses, Masters complained that his company is forced by fair t • : to sell national brand vitamins at almost four times the price of its own vitamins on which it is able to make a good profit. Quipped Humphrey: "If your business is evidence of fair trade destruction, hallelujah."

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Gordon Gray Named Presidential Aide; Hoegh Heads New Civil Defense Unit

Pres. Eisenhower has shuffled some of his top assistants following a merger of the Office of Defense Mobilization and the Federal Civil Defense Administration.

The changes:

- Leo A. Hoegh, former Republican governor of Iowa and civil defense boss for the past 11 months, becomes director of the new agency, the Office of Defense & Civilian Mobilization.
- Gordon Gray, Secretary of the Army in the Truman Administration, moves from the ODM job to become the President's special assistant for national security affairs.

Robert Cutler, Gray's White House predecessor, resigned for the second time since he joined the Eisenhower Administration and is returning to the chairmanship of the Old Colony Trust Co. in Boston.

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Congress Goes to Bat for Railroads In Depreciation Fight With IRS

Congress is getting ready to step into a long-standing quarrel between railroads and the Internal Revenue Service—on the side of the railroads. **The Senate Finance Committee last week approved a move already voted by the House, which would force IRS to allow $350-million additional depreciation on railroad stations, bridges, tunnels, and similar property.** The rails have contended for years that they should be allowed $700-million worth of depreciation for such items, but IRS has said no. Tax authorities in Congress want to offer the companies an opportunity to settle for half their original claim.

The offer to the railroads is part of a technical revision bill being drawn up for the committee by experts of the Joint Committee on Internal Revenue. In some cases, the committee's recommendations differ from a House version adopted earlier this year. As an aid to small business, for example, the Finance Committee wants corporations with 10 or fewer stockholders to have the choice of being taxed as partnerships if stockholders unanimously agree. The House bill does not provide this choice.

Other changes involve depletion allowances, sales of condemned property by utilities, taxation of retirement income, and similar technical points in the 1954 revenue code. Chance of adoption of most of the changes proposed is good.

Clear Road Ahead for Hoffa

● Acquittal of wiretap charges leaves Teamsters boss unencumbered by court actions for first time since August.

● Now he is free to devote all his energies to steering and strengthening his truck union.

● But he will have to operate under watchful eyes of Congressional investigators and reform-bent monitors.

Weary but smiling, James Riddle Hoffa, the controversial president of the International Brotherhood of Teamsters, walked out of a federal courtroom in New York this week as a free man, acquitted of wiretapping charges. Although five perjury counts still stand against him, the government is expected to drop them. For the first time since last August, courts pose no immediate problems for Hoffa.

That's important for all who deal with the country's largest union, or who have reason to fear its growing power. Up to now, Hoffa has operated under wraps. The criminal charges that were pending against him taxed his time and energy, and were a checkrein on any activities that might stir public animosity. He now can be more uninhibited.

The big question is: How uninhibited?

I. Some Restraints

Very likely, three factors will keep Hoffa cautious in the months ahead:

• Congressional investigators are far from convinced that Hoffa's record is entirely free of blemishes—despite the government's series of setbacks in "airtight" cases against him. The stocky, scrappy Detroit labor leader will be subjected to more probing, and whatever he does will be closely scrutinized. The investigators also are keenly interested in some of Hoffa's key aides, including Harold J. Gibbons, an IBT vice-president and highly important executive assistant to the truckers' president. According to Hoffa, Gibbons is "the man . . . in charge when I'm not around."

• The three-man board of monitors set up in federal court to oversee Teamsters operations has a new impartial chairman, Martin F. O'Donoghue. For the first time, the board is intervening directly in what it considers to be undemocratic practices in IBT locals in Philadelphia and New York. This is likely to force Hoffa into a position in which he must either conform in good faith with the monitors' clean-up program or balk at it—and risk a showdown in court.

• There are more and more indications that Hoffa would like to lead the Teamsters back into AFL-CIO, provided the federation will accept him as the head of a "clean" truckers union. He can succeed only if he can convince a majority of those who form federation policy that he really can—and intends to clean up what many in AFL-CIO describe as "a hoodlum empire" in labor. This won't be easy. An AFL-CIO vice-president recently criticized the Hoffa-led Teamsters as "just as crooked as ever."

As long as he has to consider these factors in setting up programs and establishing policies, Hoffa must continue to move carefully. Less so, perhaps, than in the last half-year. But he still will have to weigh possible gains from controversial moves against the adverse impact they might have.

• **Changes Due**—Some of the plans Hoffa has in mind for the Teamsters will be put into effect, regardless. For instance, IBT already is beginning to press harder for broader-based contracts that will encompass employers by areas, states, or industries and force more uniformity on wages and work conditions (BW—Jun.14'58,p113).

Also, Hoffa is going ahead with plans —largely administered by Gibbons—to strengthen the international union at its headquarters level. As a first step, IBT's staff in the union's marble building near the Capitol will be bolstered by researchers, economists, and other technicians. Hoffa intends to insist that more Teamsters business must be transacted in the future at the central offices, less on a regional basis.

Up to now the Teamsters has operated largely as a loose alliance of baronies run by IBT vice-presidents. So the new plans could mean a significant change in IBT internal policies—and could test Hoffa's ability to make second echelon leaders accept his orders.

II. IBT's Clean-Up

Before he goes very far with such a plan, Hoffa faces decisions on cooperation with the monitors. Federal Judge Letts designated an unprecedented three-man "watchdog" board last January in the settlement of an intraunion lawsuit in which 13 rebel Teamsters tried to block Hoffa from assuming office.

Recently, the board's first neutral chairman, Nathan Cayton, resigned. He said the work was too burdensome. At the time, there was little evidence of monitors' activities to be seen outside the IBT—but there were repeated reports of friction.

In his resignation, Cayton said the monitors plan was working satisfactorily. He praised the "distinguished cooperation" of Teamsters officers with reform moves.

• **Action Against Locals**—The designation of O'Donoghue as Cayton's successor as neutral monitor caused some raised eyebrows. He had represented the Teamsters in the initial hearings of the rank-and-filers suit (BW—May31 '58,p41). However, O'Donoghue, for many years general counsel of the Plumbers, wasted no time in demonstrating that he intends to keep the monitors active. In two steps that already have caused grumbling among lower-level Teamsters leaders:

• The monitors, who include attorney Godfrey Schmidt and Teamsters lawyer Nathan Wells, set up a three-man board to sift charges against Philadelphia Local 107, a target of Congressional investigators. Local officers have been accused by the Senate's McClellan investigating committee of destroying books and stealing funds.

• The monitors called New York Teamsters boss John O'Rourke on the carpet to answer complaints that he had arbitrarily canceled meetings of his Local 282. They ordered O'Rourke to hold meetings, with the dates specified.

Both O'Rourke and Local 107 leader Ray Cohen are close allies of Teamsters Pres. Hoffa. Both are unhappy about being targets of the monitors.

What happens next is up to Hoffa, himself. So far, he has shown signs that he will cooperate with the monitors by approving the special hearing board to investigate Local 107. The problems will come thick and fast for him, however, if the monitors order further steps —and Cohen and O'Rourke balk.

The monitors can act only with the consent of the Teamsters' executive board. The overseers themselves have no enforcement powers. But they can report lack of cooperation to Judge Letts, under whose authority they function, and—presumably—he can follow up in court.

• **Board's Aims**—One of O'Donoghue's objectives is to rid the Teamsters of officers and business agents with police

records as ex-convicts. To this end, the monitors, with cooperation from the McClellan committee, are preparing an extensive list of those who should be ousted.

But, many on it are strongly entrenched local Teamsters officials. They won't give up their union holdings without a fight. What remains to be seen is whether Hoffa will fight on their side—or against them.

The monitors also insist that the 60 IBT locals still under trusteeship—of 104 when Hoffa took office—should now be given autonomy through secret ballot elections of new officers. IBT says that at least 20 of these already are being returned to self-government, and Hoffa has indicated a willingness to review with the monitors the situation in the other 40.

The monitors also are having a full audit made of Teamsters records.

All these interventions are anathema to the truck union's local dynasties.

• **Hoffa Moves**—Since taking over the IBT presidency, Hoffa has, he reports, divested himself and his family of the extensive business interests that were a factor in getting him in trouble with Senate probers and AFL-CIO. He has also ordered all of his aides, and lower-level Teamsters officials, to rid themselves of any financial ties that might conflict with union duties.

Judge Letts ordered this done as a part of the agreement that settled the rank-and-fliers suit.

Hoffa has also moved to make up differences with Teamsters dissidents. Some key figures among those who challenged his election are now Hoffa supporters. Within the union, most feel that Hoffa could poll a bigger victory vote for the IBT presidency now than he did when he was elected 3-to-1 last year.

• **What's Ahead?**—Chances are, the policies that have been followed in the Teamsters for the past six months or more will continue to guide the IBT. Hoffa will assert himself more, undoubtedly, and his "braintrust" of Gibbons and other young leaders will play an increasingly important role.

IBT will continue to offer to "cooperate with all the resources at our command" with other unions, in its strategy to create a strong network of alliances within AFL-CIO. It will organize even more vigorously. Using savings from per capita taxes to AFL-CIO (close to $1-million this year), it plans to drive toward a "realistic" goal of 2-million members.

But, most of all, it plans to seek more respectability; probably, Hoffa's biggest goal is to have the board of monitors bow out with a good report on IBT at the end of the minimum one year set for the "watchdog" operation. END

Strike Insurance Plan Gets Test

Mutual aid program worked out by Hawaii sugar growers is made operative by four-month strike. But since it covers future losses, its effectiveness cannot be judged yet.

In 1956, when an industrywide strike threatened the Hawaiian sugar industry, employers united in a mutual support program aimed at distributing long-term strike losses evenly among the island plantations. The walkout was averted that year, but a four-month strike that ended recently put the "insurance" plan into operation.

It will be years before a final accounting can be given on how well the plan worked for Hawaii's 26 plantations. The owners can't recover anything from the mutual support plan for this year's losses, but only for damage to future crops as a result of the strike of field workers. However, the employers feel that the plan strongly reinforced the industry's bargaining stand against Harry Bridges' International Longshoremen's & Warehousemen's Union.

• **Bargaining Risk**—To many employers in other industries on the mainland, that's an interesting and perhaps important fact. Despite the widespread criticism of industrywide bargaining, many who must negotiate with a powerful union prefer to do so jointly with other employers.

But, they have always recognized—as have the sugar plantations on the islands—that industrywide bargaining means a risk of an industrywide strike. Not all employers are equally able to stand the losses that would result. So, there are likely to be weak spots in the employer front, to be probed by the union—perhaps for a breakthrough.

From time to time, employers have talked of various forms of spread-the-risk plans to be invoked in industrywide strikes. A few area programs have been worked out, but none so significant—and interesting—as that in Hawaii. Now that this plan has been put to a test, it is certain to receive continuing close attention for the next few years.

• **A Complete Shutdown**—The 1958 Hawaiian sugar strike was 100% effective. Plantations made no effort to work in the face of it. There was no harvesting, weeding, fertilizing, rodent control, or—most important of all—irrigation. The result was irreparable damage to 1958, 1959, and 1960 crops, since cane in Hawaii is allowed to grow two years before harvesting, and the strike brought a dislocation of planting and harvesting schedules that will take years to straighten out.

• **Uneven Damage**—The losses are far from evenly distributed among the plantations. Hawaii's mountainous, mid-ocean terrain has annual rainfall variations of more than 100 inches in the space of a few miles. In naturally wet areas, where no irrigation is needed, plantations suffered relatively little damage. Those in hot, dry areas, where irrigation makes production possible, saw their crops turn brown and crisp.

Recognition of this abnormal variation of risk in a strike brought about the mutual support plan, devised to correct some of the inequities imposed by industrywide bargaining.

Industry sources, including some where the losses were heaviest, speak of the plan as constructive and helpful. But the Hawaiian Sugar Planters Assn. stresses that it is far from complete loss insurance.

• **Big Deductions**—The strike support program is a sort of deductible insurance policy, but with the deductions so heavy as to make it really a catastrophe policy. Losses in the actual strike period are excluded, but production losses for up to six years afterward are covered.

Each of the 26 participating plantations has agreed on a normal annual production figure. After the strike year, the first one-third of "normal" production for each is excluded from coverage. Losses beyond this are compensated for at the rate of 75¢ on the dollar.

• **How It Works**—As an example, take a plantation with a normal production of 45,000 tons of sugar a year. Its 1959 production can fall as low as 30,000 tons without it qualifying for benefits. But should it drop to, say, 25,000 tons, the plantation could claim compensation from the support plan for 75% of the value of 5,000 tons of sugar. This would be made up by an assessment on all 26 plantations (the losers included) payable in installments in future years.

Industry sources currently are guessing that not more than two to four plantations will qualify for benefits—and some predict none will.

• **Strike Losses**—Estimates of the industry's total strike losses this year vary from an optimistic $26-million to $39-million. Substantial savings—some $12-million in strikers' wages and millions for fertilizer and supplies—may offset the loss on many ledgers.

But, there will be no offsets to ease the pain in 1959 and 1960. The heaviest losses may be recorded in 1960 because of crop disruption.

States Sign Up for Federal UC Aid

About half a million jobless will get checks again under federal government's emergency loan program.

At least 15 states and the District of Columbia, Puerto Rico, and the Virgin Islands have contracted for full or partial extensions of unemployment compensation under the federal government's emergency loan plan. Three others have decided to extend payments using their own money. So 880,000 unemployed will get checks again—and employed will get checks again.

More states and jobless workers will be added to the list in the next few weeks. On the other hand, unless the economy takes a turn for the worse, about half of the states are expected to reject any extension of UC.

Under the federal program, the government is making available $665.7-million for loans to states, repayable in 1963, for a 50% extension in the duration of UC for those who exhaust benefits normally. A "states' rights" clause makes participation voluntary.

• **National Picture**—By this midweek:

Eleven states and the District of Columbia had signed up for full participation in the UC extension program. Pennsylvania was the first. Others that followed include New York, Michigan, Indiana, Alabama, Rhode Island, Maryland, Arkansas, Delaware, California, and New Jersey.

• Three states, Connecticut, Illinois, and Wisconsin, had extended the duration of UC using their own funds instead of a federal loan.

• Three states—Florida, Idaho, and Arizona—and Puerto Rico and the Virgin Islands approved extra UC for Korean War veterans and federal civilian employees, rejected it otherwise.

• One state, Colorado, compromised, to approve half of the suggested extension—or a 25% stretchout in duration.

• A number of other states are expected to extend benefits either under the federal program or by using state funds. In a number of these, employers have expressed strong opposition to state approval of the federal plan, criticizing it as "unwarranted intrusion into state unemployment compensation matters" and as likely to "destroy the sound insurance principles" of the federal-state UC program. END

In Labor

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Cost of Living: What's Happening to It

	Total Cost of Living	Food	Clothing	Housing	
	1947-49 = 100			Total	Rent Only
May, 1950	101.3	98.9	96.5	104.7	108.5
May, 1951	110.9	112.6	106.6	112.2	112.5
May, 1952	113.0	114.3	105.8	114.0	117.4
May, 1953	114.0	112.1	104.7	117.1	123.0
May, 1954	115.0	113.3	104.2	118.9	128.3
May, 1955	114.2	111.1	103.3	119.4	130.3
May, 1956	115.4	111.0	104.8	120.9	132.2
May, 1957	119.6	114.6	106.5	125.3	134.7
June	120.2	116.2	106.6	125.5	135.0
July	120.8	117.4	106.5	125.5	135.2
August	121.0	117.9	106.6	125.7	135.4
September	121.1	117.0	107.3	126.3	135.7
October	121.1	116.4	107.7	126.6	136.0
November	121.6	116.0	107.9	126.8	136.3
December	121.6	116.1	107.6	127.0	136.7
January, 1958	122.3	118.2	106.9	127.1	136.8
February	122.5	118.7	106.8	127.3	137.0
March	123.3	120.8	106.8	127.5	137.1
April	123.5	121.6	106.7	127.7	137.3
May, 1958	123.6	121.6	106.7	127.8	137.5

Data: Dept. of Labor, Bureau of Labor Statistics. ©BUSINESS WEEK

Prices Edge Up a Fraction in May; 850,000 Workers Will Get Raises

The government's monthly Consumer Price Index rose a fraction in mid-May, to 123.6% of the 1947-49 average for living costs. According to the Labor Dept., increases in hospitalization insurance premiums and in used car and gasoline prices caused the rise from mid-April's 123.5%.

Food prices remained unchanged for the month, which showed the smallest CPI increase since last December.

Wages will go up at the next pay period for an estimated 850,000 workers as a result of the May index level. Most are in steel, aluminum, can-making, and related industries, where 4¢ will be due in semiannual adjustments. Aircraft and local transit workers will get 2¢ more in quarterly c-of-l reviews.

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Plant Incidents Reveal Worker Tension As Auto Talks Move at Snail's Pace

Negotiations for a new labor agreement between the United Auto Workers and General Motors, Ford, and Chrysler continue to laze along. But, outside the bargaining rooms, in plants working without contracts since the end of May, tension is building up.

At Chrysler's Missiles Div., union members struck this week without UAW authorization. They charged, among other things, that the company is discriminating in assignment of overtime. Of 9,500 employees in the plant, mostly skilled workers and technicians, fewer than 1,000 belong to UAW. Auto union officers threatened on Wednesday to put the striking local under a trusteeship if it did not end the wildcat walkout.

General Motors claimed sabotage at its Kansas City Fisher Body plant. Fifty bodies were scratched or dented. UAW denied its members were responsible.

Although the slow-moving negotiations weren't involved directly, the incidents involving two of the companies are indicative of what appears to be a growing labor resentment against the Big Three.

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Rail Union Demands Plan to End "Whims" of Seasonal Layoffs

Railroads face another strike threat this summer unless they negotiate with the Maintenance of Way Employees on some form of stabilized employment, the union warned last week.

It isn't asking for an annual wage, it said, but for "proper assurance that our people will [no longer] be subjected to the whims of seasonal layoffs," but will be able to count on "regular wages."

According to the union, 170,000 workers in its jurisdiction lost jobs in the past six years due to "mechanization and under-maintenance by the railroads."

T. C. Carroll, president for a decade and an active unionist for 39 years, announced his retirement. H. C. Crotty, his assistant, has been elected to succeed him.

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Total Man-Days Lost in Strikes Reached Postwar Low in 1957

Strike activity idled fewer employees and caused a loss of fewer man-days in 1957 than during any year since World War II, the Bureau of Labor Statistics has announced. **Its reports showed 3,673 new strikes during the year; 1.39-million strikers caused a loss of 16.5-million man-days of work.**

The largest number of strikes occurred in New York, where 460 stoppages caused 1.7-million man-days of idleness. Other states: Pennsylvania, 440 stoppages; Ohio, 355, idling the greatest number of workers, 151,000; New Jersey, 238; California, 235; Michigan, 208; Illinois, 199; Massachusetts, 144; West Virginia, 139, and Missouri, 111. All others had fewer than 100 strikes each.

The 10 industrial states accounted for 2,529 strikes, or more than two-thirds of the total.

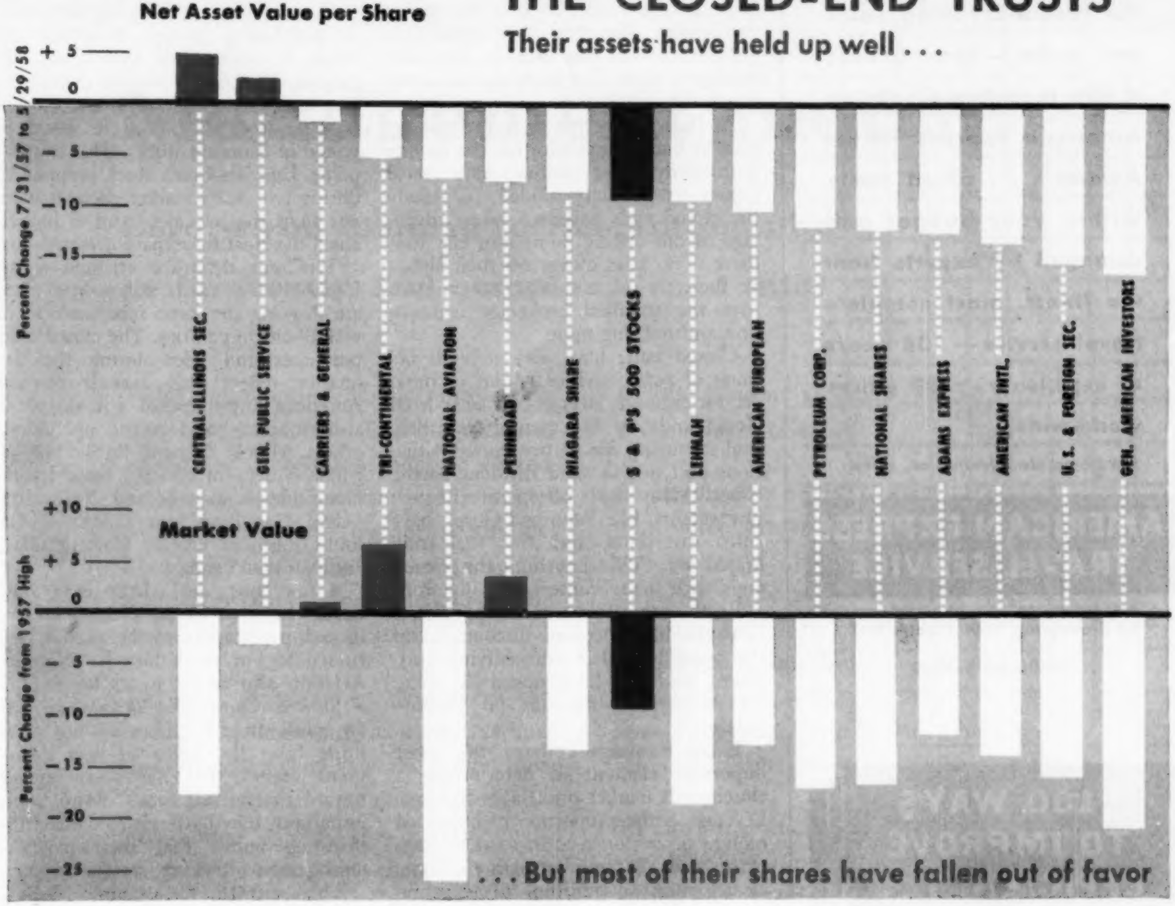
Of the 3,673 strikes in 1957:

- **1,730 or 47.1% involved wages, hours, or fringes.**
- **837 or 22.8% were over job security, shop conditions and policies, work loads, and similar issues.**
- **442 or 12% involved conflicts over union status—**recognition, union security, and the like.
- **326 or 8.9% were due to disputes between unions or inside a union.**
- **And 309 or 8.4% involved a combination of factors.**

No reasons were cited for 29 strikes.

BLS noted a decline in strike idleness caused by economic issues in 1957, and an increase in walkouts over seniority, transfer rights, and other job security provisions.

THE CLOSED-END TRUSTS



These Trusts Find Fewer Takers

The depressed state of the closed-end trusts is evident from the charts above. Despite a fair performance record in terms of net asset value, only four of the closed ends—which pride themselves on their professional investment skills—are doing better than Standard & Poor's 500 composite stock index.

There is no mystery about the drop in the prices of most closed-end shares. For the most part, investors are simply not buying.

• **How They Differ**—This lack of interest in closed ends is in sharp contrast to the boom in mutual funds, the other major branch of the investment trust business.

The basic difference between the two is this:

• By continual sales of new stock, mutuals get a constant flow of new cash to help boost assets.

• The closed ends have a fixed number of shares outstanding and are traded like any other corporate issue listed on a stock exchange.

The difference in their structure leads to a big difference in their operations. The mutuals sell their shares—and stand ready to redeem them—at prices based on current net asset value. But shares of the closed ends, like other listed stocks, move up and down under pressure of supply and demand. This means that the market price of a closed end can be at a premium or a discount from net asset value.

• **Some Up, Some Down**—Right now, most closed ends are selling at discounts. This is not unusual, say closed-end managers. Some closed ends normally sell at discounts even in a bull market, although there's usually a much narrower spread between the market price and net asset value than there is right now.

At the same time, some closed ends traditionally enjoy a premium. Lehman, for instance, is now selling at a premium of about 7% above net asset value, even though it has suffered a 9% drop in net assets over the past 10 months.

There's no precise yardstick for determining why one trust sells at a premium and another at a discount. It's largely a matter of intangibles. Lehman's name—and the Lehman management—have a great deal of prestige among investors. And National Aviation, which specializes in aircraft stocks, apparently sells at a premium because of investor interest in the industry.

At the moment, though, few closed ends can point to investor interest. True, many of the funds have registered gains in their share prices during the market's recent rally, and some have managed to narrow their discounts from the spreads existing last year. But by and large, investors have been shunning closed-end shares.

• **Why Investors Shy**—While it's not secret that investors are cool, it's hard

to pin down the reasons for their attitude. It's obvious that part of the fault lies in the mediocre results of some of the trusts, so that the better performers, like big Tri-Continental, are getting what play there is. But trust managers think that performance alone is not the only defect.

As they see it, they haven't been aggressive enough in educating the public, particularly since mutual funds have grown so publicity-minded. Certainly the closed ends have not taken advantage of one selling point—the fact that there is no sales charge on their shares as there is on mutuals. An investor pays the standard brokerage commission and nothing more.

Closed ends have also suffered because of past activities. A lot of brokers, for example, steer clients away from closed ends on the ground that they deal in buying speculative growth situations and not in solid dividend-paying issues. Many trusts once active in such investments, like Pennroad Corp., have since diversified, but the reputation lingers on. This has hurt the closed ends with many conservative investors.

By the same token, more speculative investors have become discouraged at the trend toward overdiversifying portfolios. And they have looked elsewhere for more rewarding—but far riskier—outlets.

• **Extra Earnings**—Perhaps the most important element in determining a closed ends market price is its leverage. Leverage is the proportion of borrowed money or senior securities to a company's over-all capital structure. Some closed ends, in addition to investing the capital from sale of their own stock, borrow money or issue senior securities and invest these proceeds, too. If these investments bring a higher return than the trust must pay out in interest, the surplus represents an additional bonus to common shareholders —and increases their per-share earnings. This gives an investor a higher rate of return on his money than he would earn if the trust were capitalized only in stock. But there's a risk involved. If the trust has to pay out more in interest than it receives in investment income, common stock earnings could reach the vanishing point.

Tri-Con, which is a leveraged trust, offers a fine example of what can happen. In 1951-52, the company's total asset value went up about 10%, but leverage pushed the asset value of each common share up some 16%—and the stock price went along for the ride. But during the bear days of 1946, when market averages declined 18%, Tri-Con's common shares went down 21% in price, more than 50% in asset value.

• **Defensive Gambits**—Today, though, many of the trusts have reduced leverage from their capital structure by cutting down on their senior securities. And some, like Tri-Con, have temporarily neutralized it by going defensive—by purchasing enough preferreds and bonds to exceed their own senior obligations. Tri-Con's managers started cutting back on its equities in late 1955; it now has only 76.7% of its assets invested in common stocks. This cautious policy kept Tri-Con's stock propped up during last year's market decline; it fell less than the averages. And it has enabled the trust to outpace averages now.

Tri-Con's defensive attitude is not followed by all trusts, but most of them are showing the same reluctance to invest all-out in equities. The closed ends' purchases and sales during the first quarter reflect this over-all caution. American International got rid of its airlines stocks, and picked up, among others, Merck. General Public Service, which is deep in utilities, bought some Consolidated Edison and Transcontinental Gas Pipe Line Corp. And it sold Caterpillar Tractor, Corning Glass, and National Lead.

A few trusts are a little more optimistic. Lehman Corp., which increased its cash position during the quarter, continued to buy stock heavily. National Aviation also added to its holdings.

• **Slow to Grow**—The closed ends face an uphill struggle. They are not benefiting from the influx of new investment money that has been flowing toward the mutual funds. And, more important, they have not convinced the investing public that their portfolio management deserves greater support.

Their growth, for example, is at a snail's pace compared with the growth of mutual funds. There are 24 closed-end trusts registered with the National Assn. of Investment Companies, and their total assets come to about $1.2-billion, a 36% increase since 1951. But the mutuals—144 of them are listed by the NAIC—have assets of more than $10-billion, which is three times the 1951 figure.

Trust managers say they're unconcerned by the boom in mutuals. But they do concede they would like to see greater interest in closed ends. First, it would be an advantage to any trust wanting to raise new cash. Second, expansion in the closed-end field depends on a step up in investor favor.

Most closed-end trust managers think they will be able to achieve better results than the mutuals. They point out that in terms of net asset value, their record compares favorably with the mutual performance. Their main problem, they acknowledge, is convincing the public. The mutuals, they say, have the advantage of not having a past. "It's up to us," says one closed-end director, "to prove we have a future." END

Management men:

Before you dismiss "office automation" as too costly and complex...read this!

Today, automation in the office is the subject of hot debate. To many company executives it means a mass of complicated machinery and the highly-trained personnel to run it. To others, it signifies excessive training and indoctrination, an inordinate outlay of cash, an end to time-tested methods of operation.

Yet most management men agree that in today's increasingly competitive business situation they *need* the faster, more accurate reports that office automation can deliver – up-to-the-minute reports on labor, production, costs, inventory. But, they ask, how do we get them without extravagant confusion and cost?

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In the Markets

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Treasury Bonds Lead Price Break As Speculators Lose Their Nerve

Bond prices crumbled this week. There was no panic in the market, but there were definite signs of distress.

The biggest decline came in government bonds. A selling stampede began late last week on reports that the Federal Reserve had shifted from its policy of active credit ease. **Most of the selling was by unsophisticated speculators, who had bought Treasury issues on 5% margin.** But the drop in prices brought out other sellers —banks and non-financial corporations—who had hoped for a quick profit.

While the Fed refused to deny the reported shift, officials privately declared that the policy of "active ease" has not been changed. In fact, officials also made clear that they are not yet convinced by signs of an economic upturn (page 23). **"We aren't buying all the happy talk,"** explained one Fed official, adding that "there will probably be further reductions in reserve requirements this year."

It is clear that the market hit a vacuum. On one hand, the speculative run in bond prices has ended—partly because of bullish economic news. On the other, the decline in demand for long-term credit has not yet been felt in the bond market. This secondary effect of the recession will come but, in the meantime, bond investors take a beating.

The Fed admitted that it was not bothered by the burning of the speculators in governments. **But it is concerned that the depression in the Treasury market has had a chilling effect on the corporate and municipal markets.** This week, for instance, Standard Oil of California postponed a $150-million debenture issue until the market settled down. And two underwriting syndicates broke up with a heavy portion of the issues—Niagara Mohawk Power Co. and Illinois Power Co.—still unsold.

Bond dealers are hoping that the market will right itself. The Fed is also intent on seeing a more stable market. This week it was an aggressive buyer—for its own account and for Treasury trust funds. This helped stem the decline.

• • •

Stock Prices Mark Time, Pending Clearer Signs of Business Upturn

The stock market this week showed signs of indecision. It backed away from the high reached earlier this month, then steadied. Investors were apparently unable to decide whether the next big move would be up or down.

Most economic news is bullish, but the rise in prices over the past two months has anticipated this. Evidently investors want more confirmation before continuing their buying. As one broker put it this week, "My clients aren't satisfied that the business slump is ended—they want assurance we are enjoying a strong recovery."

While the market in general seemed to be in a state of suspension, speculative activity was fairly strong. **Lower-priced stocks were heavily traded, and brokers report that the total short position still is large.**

The biggest immediate influence on stock prices is likely to be the forthcoming reports on second-quarter earnings. Most analysts say that the second quarter should show an improvement over the first quarter, but only because such a gain is seasonal. Few professionals think the earnings figures will justify present stock prices, but they say investors are betting that future earnings will be up.

• • •

Rush to Sell Servel Shares Leads to Brief Halt in Trading

A sudden flood of sell orders, followed by a rush of stop-loss orders, forced a temporary suspension of trading in Servel, Inc., common stock on the New York Stock Exchange this week. In the opening half-hour of trading on Wednesday, 16,000 shares changed hands, and the price dropped to 7—off 1¼ from Tuesday's close. Then the NYSE ordered a halt. A half-hour later, trading was allowed to resume, with 6,000 shares going at 6⅞. The stock closed at 7⅛ on a total volume of 73,800 for the day.

Stock traders, normally in the know concerning such movements, were at a loss to explain Servel's drop. Servel is reported to have about $5 cash per share in its kitty, but its search for a profitable operating company to take advantage of its $18-million tax-loss carryover has not yet been successful. It is possible that speculative interests who look on it as a special situation offering big profits (BW—Jun.14'58,p115) have been disenchanted by the long wait.

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The Markets Briefs

Anticipating U. S. legislation allowing investment companies that have 90% of their assets in cash or tax-exempt bonds to pass on nontaxable dividends, a number of **mutual bond funds have informed dealers they are ready to switch their portfolios from corporate bonds to municipals.** The bond funds have been the laggards in the boom in mutuals, but fund managers feel the proposed legislation will bring new life to them.

The rush to save continues, but at a slower pace, according to the National Assn. of Mutual Savings Banks. The net deposit gain for the nation's 520 mutuals in May totaled $180-million, or 7% ahead of May, 1957, but the cumulative gain for the first five months ran 62.5% ahead of the 1957 period.

Closed circuit television is coming to Wall Street. Bache & Co. installed a TV system this week to transmit market quotations to all parts of its main office. This system has two big advantages: its silence, and its cost, which is less than half the conventional tape method.

DESIGN FOR THE FUTURE

The 1961 automobiles are now on the drawing boards. That may seem a long look ahead. But the time is really brief compared to the long-range plans, programs and projects mushrooming from the world of engineering and science in which The Budd Company is actively participating.

Among new Budd developments are radiography machines that see through metals and nuclear research which may well revolutionize the processing of foods, pharmaceuticals, finishes and fabrics. New forms and metals for hypersonic aircraft and missiles. New machines for measuring materials. New plastics. In many fields Budd is contributing to the exciting scientific era that erases bounds on imagination and obstacles to progress. The Budd Company, Philadelphia 32.

AUTOMOTIVE PRODUCTS

Budd supplies body parts and steel disc wheels to all the principal manufacturers of automobiles and trucks, from plants strategically located in Philadelphia, Detroit and Gary, Ind. In Europe, eleven major automotive manufacturers are Budd licensees, employing Budd designs and production methods.

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Budd

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PERSONAL BUSINESS

BUSINESS WEEK
JUNE 28, 1958

A BUSINESS WEEK
SERVICE

Tread cautiously if a close friend—or even a relative in some cases—asks you to let him name you executor of his estate.

You may be inclined to accept, out of respect and sentimentality. The fact is, though, your acceptance might work a hardship on both your friend's family and yourself.

Don't underestimate the job of serving as executor. First, there's a time element to consider. You couldn't reasonably expect a short six-month or one-year task—the average estate, if at all complex, takes two years or longer. More important, there's a heavy responsibility. Not only has an executor a wide range of duties—including the delicate task of satisfying the decedent's family on a personal level—**but if the administration in his hands turns sour, he may find himself personally liable, even penalized.**

Generally, the executor must (1) assemble and distribute the assets of the estate, and (2) see that all the debts of the decedent (including taxes) are paid. Along with this go the duties of management and investment responsibility—collecting income, selling assets, adjusting claims, maybe even operating a family business. In sizable estates, the investment function usually is paramount—for example, the job of selecting from the decedent's portfolio the proper assets to sell to pay taxes.

Reinvestment, too, may be involved.

The stickler is that carelessness in any of these affairs by the executor can cost him money from his own pocket. For example, neglecting to sell promptly property declining in value can, in some cases, cost the executor the difference between an early and a late sales price.

The risk reaches far. As an executor, you're not only responsible for your own actions, but you may be held personally accountable for the unwise or negligent actions of persons whom you employ to help you manage the estate. Not only that. In some situations, claims against the estate may hit your own pocketbook—where the claim is valid, and somehow you've ignored it, and paid out and distributed the estate's assets.

Then there's the matter of taxes. Generally, if the executor pays the estate's regular debts and leaves no money for taxes, he may, in some cases, be personally responsible for the taxes—at least, in part.

Finally, before deciding whether to accept an executorship, remember that once you've actually begun the duties of executor (after the death, of course), you might find the role difficult to put aside. **To resign for personal reasons, you would have to petition the probate court, show cause—and face the chance that the judge would strongly discourage your resignation.** Even if you did step aside, you'd have to submit a formal accounting to the court, suffer delay, and possibly a great deal of embarrassment.

With all this in mind, especially if the prospective estate looks complicated, you might want to suggest tactfully that your friend name as executor a bank or trust company, or an attorney—or both. You could point out two advantages: His estate would be managed with professional skill; and, with a bank or trust company, there would be no chance that his executor would predecease him or die before the executorship was fully executed.

True, some of the above examples are rather extreme.

BUSINESS WEEK
JUNE 28, 1958

You might have clear sailing as executor of even a large, complex estate—limited duties, few problems, no questions bearing on your possible personal liability. Most estates do, in fact, turn out this way. Obviously, though, there are some highly practical questions to get settled—as to the extent of the estate and the problems you'd be faced with—before you agree to be named as executor. **(Incidentally, if you are named—with or without your knowledge—you can decline when the will comes up for probate, before taking over as executor.)**

Compensation: Executors' commissions vary a good deal from state to state. In many cases, frankly, they fail to provide adequate compensation to the individual executor, particularly if he himself is an active executive whose time is valuable. In New York State, for example, the commission is 4% of the first $10,000, 2½% of the next $290,000, and 2% of all over $300,000.

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If you're flying back from Europe this year, it might be smart to stop over at one of the "tax-free" airports to pick up some bargains.

There are several: Schipohl Airport in Amsterdam, Orly Field in Paris, Kastrup Airport in Copenhagen, and, of course, Shannon Airport in Ireland, oldest and biggest. **And in the next few weeks a new "duty free" shop will open at Melsbroek Airport, Brussels.**

At a free airport, you avoid taxes—sales, federal, or customs—on your purchases. Of course, you can include whatever you buy in your $500 duty-free exemption. Remember, though, you can bring back only one gallon of liquor (usually five bottles), 300 cigarettes, or 50 cigars.

Most of the free ports sell a wide variety of goods—French perfumes, U. S., French and Scotch liquors, German cameras, Swiss watches. Prices normally are close to half U. S. prices. Shannon has the widest assortment. You can buy Scotch whisky for $3 a bottle, Canadian Club for $3, and I. W. Harper for $3.25. A good Leica camera with lens runs $250-$300. Orly carries small stocks—mainly perfumes.

Twenty-four hour service is available at most of the airports. You can take your merchandise with you, or it can be sent home by mail. **Don't worry about the extra weight of liquor or other small items—most airlines don't insist on weighing them as part of your baggage allowance.**

One tip: **You can order gifts under $10 for your friends in the U. S., and have them shipped from the free-port without having them counted against your $500 allowance.** You can't ship liquor, however.

—•—

Are you thinking of enrolling a son or daughter in a school abroad? Foreign private school facilities are an added feature this year of **The Handbook of Foreign Schools, 1958** (Porter Sargent, Boston, $10), which comes out next week.

Included are selected lists of schools in Europe, Asia, Africa, South America, Australia, with details on students, teaching staffs, tuition. Several pages each are devoted to schools in England, France, Switzerland.

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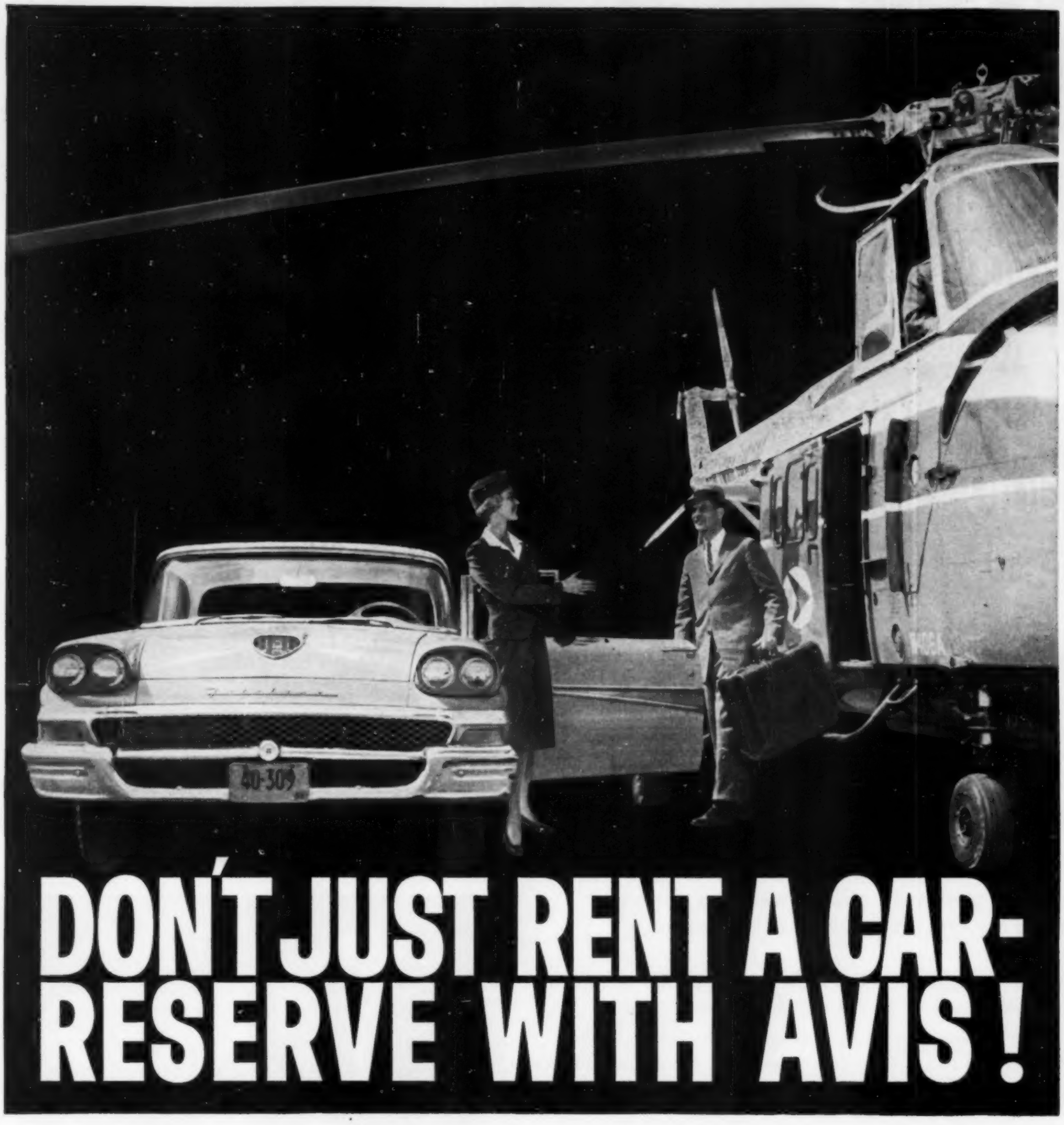
Executive chef department: For tastier hamburgers, a new idea is to **add two ounces of ice cold bourbon whiskey to each pound of chopped meat,** mix well, then charcoal broil.



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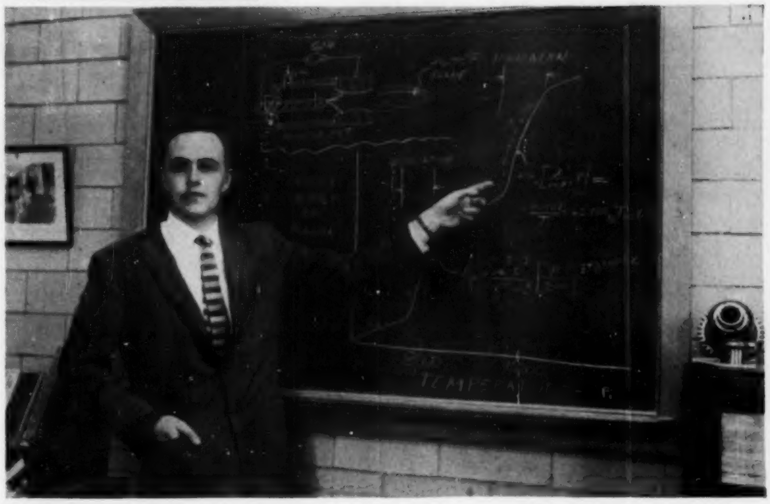


THEORY behind plasma torch is demonstrated by inventor M. L. Thorpe. Device is . . .

Hottest Torch for Industrial Use

Two Dartmouth College professors have invented a torch for industrial use that reaches more than three times the heat of an oxy-acetylene flame, whose maximum is 5,700F. The new device, called a plasma torch, is capable of sustained operation up to 20,000F and higher.

The plasma torch was developed by Professors J. A. Browning and M. L. Thorpe. Plasma in this sense is a gas heated by electricity to such high temperatures that its molecules are broken down into ionized atoms, which have high energy content.

• **Lower Cost**—Cost of the gas in the plasma torch (nitrogen is the most economical) plus the electricity per unit of heat output from the torch is about half that for operation of an oxy-acetylene flame, according to the inventors. The plasma torch compares even more favorably on the basis of unit heat transfer. Applications include chemical synthesis, melting materials like tungsten carbide, flame-polishing glass, among others.

Work on plasmas goes back over 20 years. But the possibility that plasmas may lead to the extra high temperatures required for thermonuclear reactions and the conquest of space has given research in this field a tremendous spur lately.

• **Important First**—The plasma torch is the first device capable of sustained operation with gases like nitrogen and hydrogen that have two atoms per molecule at room temperature. In the past, such diatomic gases have been used only for brief operations, while sustained activity has been accomplished only with such gases as argon and helium, having only one atom to a molecule. But these are too expensive for industrial use, and do not deliver as much heat.

In the plasma torch, the plasma is formed by passing the gas through an electric current in a restricted passage. The higher the arc intensity per unit of gas flow, the greater the resulting temperature of the plasma, which is ejected from the opening of the passage as a jet flame. This is unlike arc-welding because the electric current does not flow directly to the substance being worked on.

Plasma torches are made by Plasma Flame Corp., 10 Bridge St., Westbury, N. Y. Cost: $6,000 to $10,000.

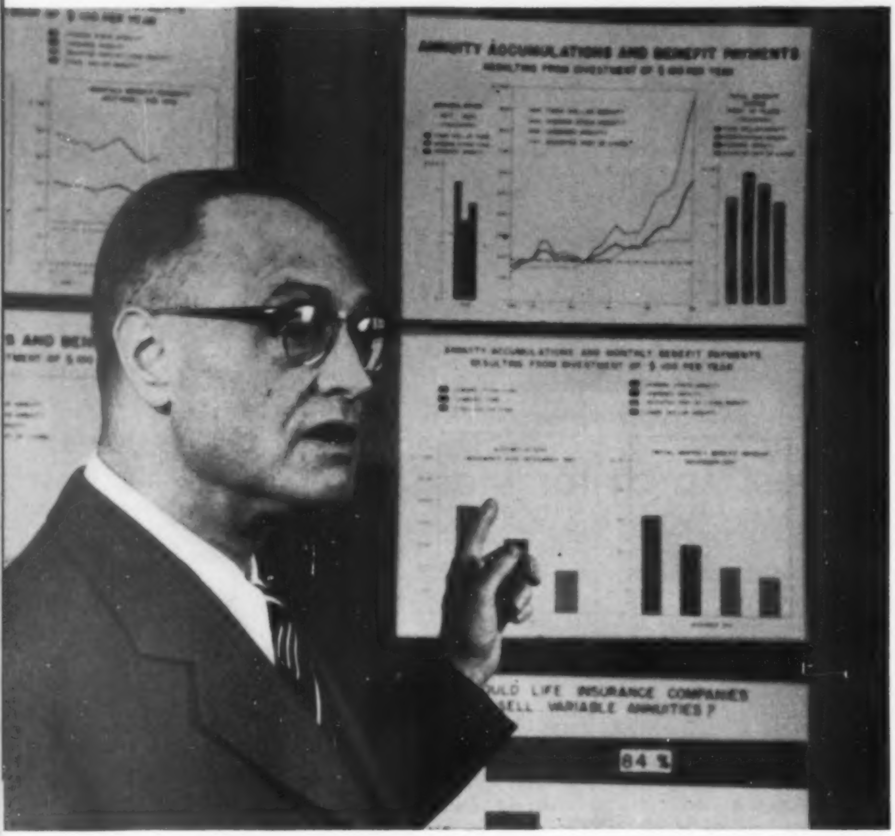
Tube Envelope Called Boon to Electronics

A new type of envelope for electronic receiving tubes has been developed by Westinghouse Electric Corp. A rectangular "match box" design, it uses the same electrode structure as conventional tubes.

Westinghouse says its tube envelope (1) permits better circuit performance; (2) gives greater flexibility in the designing of tubes and equipment, notably in that it's easier to attach to printed circuit boards, and (3) is more reliable. There is no tube stem and all the lead welds to the mount structure are in one plane, which makes it easier to get at and control the welds.

So far, development of the tube has been aimed at military needs, but Westinghouse thinks its envelope may be ready for commercial use in two years. END

The Pru Leads Fight to Sell a



FOR Leader of the forces who want life insurance companies to be allowed to sell variable annuities is Prudential's president, Carrol M. Shanks.

GROUNDWORK for variable annuities was laid by William C. Greenough of Teachers Insurance & Annuity Assn.

PIONEER in the field is Robert A. Crichton, whose Variable Annuity Life Insurance Co. of America was one of first in business.

The battle is over variable annuities—whose payoff is geared, as inflation hedge, to market value of the stocks behind them.

Carrol M. Shanks (cover and picture, left) mild-mannered, 59-year-old president of Newark's giant Prudential Insurance Co. of America, is busy these days stirring a financial brew that smells sweet to some, sour to others.

- If you listen to his bitterest opponents, the concoction threatens to poison the life insurance industry, throw the stock market out of kilter, destroy the independency of corporate management, and undermine the public's investment judgment.
- If you listen to Shanks, the recipe represents the life business' first forward step toward protecting retired folk from the ravages of inflation and the accompanying erosion of the dollar.

• **Variable Values**—The subject of the dispute is something many a well-informed businessman has still never heard of—a hybrid with the rather impressive title of variable annuity. Its something you'll be hearing a great deal about, though, if Shanks has his way and Prudential salesmen all over the country start adding variable annuities to their wares.

A purchaser of a variable annuity is committed by his contract to pay fixed premiums over a long period of time, at least 15 years in most cases. The insurance company holding the contract invests these premiums mainly in common stocks, also in preferred stocks or convertible bonds. The value of the purchaser's total investment varies with the level of the stock market and with fluctuations in dividend rates.

When his payment period expires, he may begin receiving an income from his annuity; this income also varies with the level of the stock market and dividend payments. Monthly payments will come to him until he dies—but in varying amounts.

I. How an Income Varies

As an example of how variable annuities work, one company—Variable Annuity Life Insurance Co. of America, of Washington, D. C.—translates it into dollars and cents this way:

Assume a purchaser had decided, at age 44 in 1937, to set aside $100 a month toward retirement in 1957. He bought a variable annuity guaranteeing a lifetime income for him; if he died

New Kind of Annuity

within 10 years after retirement, his wife was to get the income for the remainder of the 10-year period. By last year, he had paid in $25,200.

By 1957, reports VALIC, his account would have had a cash value of $65,038, based on a portfolio invested 75% in a combination of industrial, rail, and utility stocks. Had he bought a conventional fixed-dollar annuity instead of a variable one, VALIC says, the cash value would have been half that.

• **Figuring the Income**—Each premium he paid bought a certain number of "accumulation units," depending on the size of the premium and the value of a unit at the time. Computed each month, the value of a unit rises and falls with the market value of the company's portfolio, plus all income from dividends and other sources. His retirement income was computed on the basis of the number of accumulation units he had acquired through the years, his age, the size of his monthly payments, the company's figures on mortality and expenses, and the type of plan he had selected. Taking all these factors together, the company came up with a figure for his number of "annuity units" which determine his income. This number is fixed, but, like accumulation units, their value fluctuates mainly with the market value of the company's security holdings—and as this varies, of course, his income varies.

In VALIC's sample case, the annuity holder's first monthly income check came to $414. Later it varied as the company's investment results varied. Income from a regular annuity, of course, would remain fixed. Obviously, this example is based on the performance of the market between 1937 and 1957, including 1949 to 1957, when common stocks enjoyed their greatest bull market in history. There's no guarantee that the results ever again will be so good.

• **Fixed Yield, Fixed Return**—With a fixed-dollar annuity—the variable annuity's better-known cousin—premiums are invested in debt securities such as bonds and mortgages with fixed yields. An insurance company, therefore, can guarantee a fixed income to the purchaser between the time he completes his payments and his death.

As of the end of 1957, about 4.2-million persons owned annuities—some of them also among the 4-million covered by group annuities.

Prudential's Shanks is the moving force behind a massive effort to offer variable annuities to the public at large via the nation's roughly 200,000 life insurance salesmen (about 29,000 to 30,000 of whom sell Pru policies).

To do this, he must eventually overcome the dogged opposition of a large and powerful segment of the financial world: The Securities & Exchange Commission, the Investment Bankers Assn., the New York and American stock exchanges, the National Assn. of Securities Dealers, the National Assn. of Investment Companies—plus a formidable group of opponents within his own industry, led by Frederic W. Ecker, president of the Metropolitan Life Insurance Co. The Metropolitan ranks ahead of Prudential as the biggest life company in the U. S., measured in terms of assets.

II. Weapon Against Inflation

Shanks is motivated by what he considers the basic weakness of the conventional annuity: Inflation for a long time has been eating into the purchasing power of its fixed dollar income.

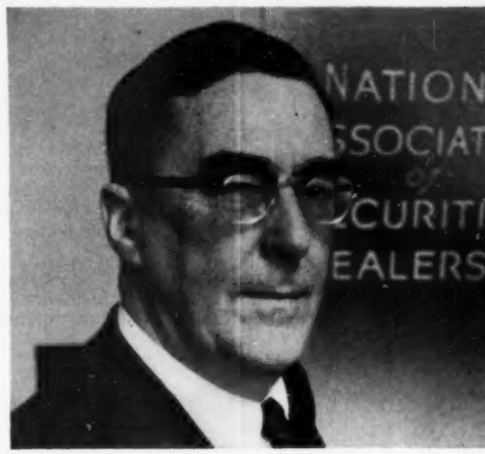
One organization with a special and early interest in the subject was the Teachers Insurance & Annuity Assn., organized in 1918 to provide life insurance and retirement annuity benefits for members of the faculties and staffs of the nation's universities, colleges, and non-profit research organizations and foundations.

Many of the institutions participating in TIAA coverage had endowment assets invested in balanced funds with varying combinations of debt and equity issues. Comparisons were natural between the long-term yields and appreciation of these endowment funds, and the results from the fixed-income securities in which TIAA had its money invested. In 1950, William C. Greenough, then vice-president of TIAA and now its president, found that over the previous 70 years, income from combined fixed and variable annuities would have outstripped income from fixed annuities alone.

• **Pioneer Funds**—Following this report, and a number of complementary TIAA studies, the College Retirement Equities Fund was organized as a companion to TIAA, under the supervision of the New York State Insurance Dept. A CREF policyholder can allocate up to 50% of his premiums to the stock fund. At least another 50% must be allocated to TIAA toward purchase of a fixed-dollar annuity. CREF began operating July 1, 1952, and Greenough became president in 1957.

In 1954, a variable annuity company

AGAINST Frederic W. Ecker, president of Metropolitan Life, thinks variable annuities too speculative.



ABSENCE of SEC rule over variable annuities stirs opposition of Wallace H. Fulton of National Assn. of Securities Dealers.

BIG BOARD Pres. G. Keith Funston objects on the same grounds, fears entire securities industry might suffer.

was formed in Arkansas—Participating Annuity Life Insurance Co., of Fayetteville, Ark. In 1955, Variable Annuity Life was organized in Washington, and it was followed in 1956 by Equity Annuity Life Insurance Co., headquartered in the same city. One or more of these companies have been licensed to do business in West Virginia, Kentucky, Arkansas, and North Dakota. Six or seven more states, says VALIC's president, Robert A. Crichton, are expected to permit sale of variable annuities by the end of this year.

The District of Columbia and a number of the states permit sale of variable annuities under local insurance laws. But most of the populous states, like New Jersey and New York, in effect forbid their sale by insurance companies, and special legislation will be required before life companies can offer them to the public generally.

III. 1.5-Million Buyers?

In the meantime, the variable annuity idea has been applied to the pension funds of some prominent business organizations and corporations, such as Long Island Lighting Co., Bristol-Myers Co., and Chemstrand Corp.

State governments, too, have taken an interest in variable annuities. Last year, for example, the Wisconsin legislature passed three bills incorporating the variable annuity principle into the retirement systems for state employees, state teachers, and Milwaukee teachers.

• **Pension Fund Outlet**—So far, though, the market for variable annuities has barely been scratched. The biggest single market is the rapidly growing pension fund business. At one time, pension funds were almost exclusively managed by insurance companies. But in recent years, more and more of these funds have been turning to the banks for administration. This stems largely from a desire for more common stock holdings than is possible under the administration of life companies, which in almost all cases are legally restricted in the size of their investment in equities. Last year, the nation's insurance companies collected \$1.6-billion in premiums on pension funds managed by them. Payments last year into uninsured corporate pension plans totaled \$3.3-billion (BW—Jun.21'58,p97).

Another primary market for variable annuities is composed of professional and self-employed persons between 35 and 55. This group has the income and incentive to provide for retirement, but ordinarily it isn't covered by pension plans.

A good estimate of the size of this market is about 3-million individual buyers. But many of these may prefer mutual fund shares or fixed annuities;

Prudential's Shanks estimates that a maximum of 1.5-million individuals might buy variable annuities—if available—over the next 10 years.

IV. The Battle Is Joined

The potential economic impact of variable annuities is tremendous. The question arousing the financial world: Will the impact be good or bad.

Right now, the dispute over variable annuities centers in two major battlegrounds—the U. S. Supreme Court and the New Jersey Legislature.

The court fight, pressed by the Securities & Exchange Commission and National Assn. of Securities Dealers against the two Washington variable annuity companies, VALIC and EALIC, is over whether variable annuities are primarily securities and thus subject to SEC jurisdiction—or are a form of insurance. In the last round, the U. S. Court of Appeals found variable annuities were a form of insurance and therefore not in SEC's province. The issue is being brought before the Supreme Court for a final ruling. If the Court agrees to hear the case, a decision could well be handed down sometime next fall.

• **New Jersey's Bills**—In the fall, too, the New Jersey Senate is expected to vote on three bills just passed by the Assembly. These bills, in effect, would permit the Prudential to sell variable annuities in New Jersey.

Passage of the variable annuity legislation in New Jersey is vital if the Prudential is to sell variable annuities at all. The company is incorporated in New Jersey; thus it must conform to New Jersey laws before it can do anything, anywhere. Also, many states are watching the New Jersey legislation—which will probably serve as a model for other states—to help them make up their own minds on the same issue.

V. Shanks vs. Ecker

The main protagonists are Ecker of the Metropolitan vs. Shanks of the Prudential.

Ecker's main objection is his conviction that variable annuities are not the business of life insurance companies. He says the public will misunderstand variable annuities and blame the life companies for any possible reduction in income in the event of a stock market decline. Ecker is almost evangelistic in the fervor with which he denounces variable annuities sales by life insurance companies. "I don't want to put our salesmen in that business," he declares. "They've been selling safety and security—then they'd be selling speculation."

Underlying Ecker's attitude is his

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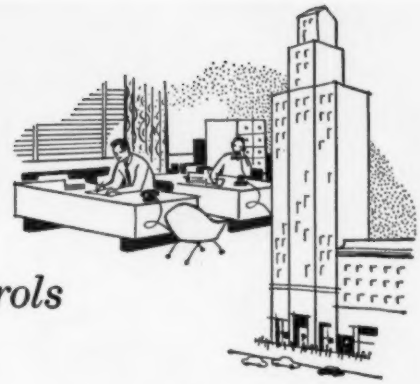

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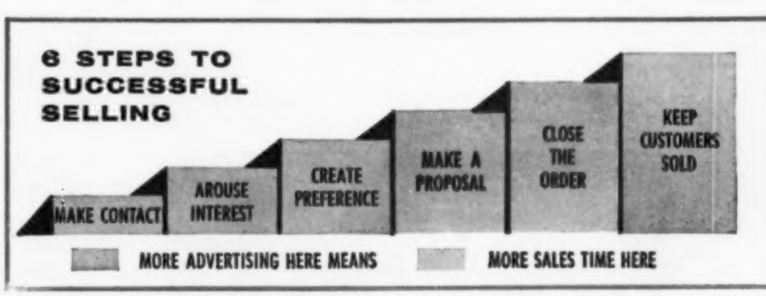

view of common stock as an investment. A few years ago, he said:

"My recollection of the heartaches, and I can properly say tragedies, that are involved in times of severe market breaks is still too vivid in my mind to permit me willingly to see our fine agency forces sell contracts based on common stocks."

• **Curb on Commons**—Although there is no real ceiling on how much common stock life insurance companies can hold, as a practical matter the amount is stringently limited. In New York, for example, life companies cannot invest more than 5% of their assets in commons, and can't acquire more than 2% of the authorized issue of any given company. Also, the stock must meet certain earnings tests.

Ecker fears that entry by the life companies into the variable annuity business will bring with it federal regulation. At present, only the states regulate the insurance business. But, says Ecker, there is "grave danger" that once the insurance companies materially build up their holdings of common stock, Congress will begin thinking about legislation to prevent their influencing the companies in which they have large holdings.

• **Shanks' Rebuttal**—Any discussion of the pros and cons of variable annuities must eventually boil down to these two key questions:

• Will the cost of living continue to rise?

• Does the stock market rise and fall with the cost of living?

If Ecker's arguments are sincere and convincing, Shanks' are no less so.

Shanks contends there is a possibility—"a good possibility"—that the economy will go on spiraling upward—and that the resultant dollar erosion will be felt at its worst by persons living on fixed incomes. And his charts show that over the long term, the trend in the stock market has pretty much followed the movement of the consumer price index.

Ecker and his group of economists counter that inflation is not inevitable. They say that in the past there has been "little inflation other than during war, and in periods immediately following war."

• **Correlations**—Studies by CREF and Prudential show some correlation between stock prices and the cost of living. However, variable annuities' opponents say, there were lengthy periods in which the cost of living rose while stock prices fell. Asks Ecker: "Can a retired individual living off the income from a variable annuity change his standard of living, change his rent bills, or other fixed items, with the rapidity that the stock market changes?"

Essentially, Shanks' reply is that although there may be month-to-month

changes in income from a variable annuity, the long-term return will far outstrip the return from a fixed annuity in the same period. Shanks doesn't claim the variable annuity is the perfect answer to the financial problems of retired persons; he just claims it is the best available solution, and that it should be part of over-all investment programing.

VI. Other Critics

Many of Ecker's negative arguments are echoed by the securities industry, which has added a number of its own special complaints. Its representatives say variable annuities are comparable to shares of mutual funds, and should come under the same restrictions and regulations. To understand their point of view, you have to examine some of the similarities and differences between variable annuities and mutual funds:

- The holder of a variable annuity—and, if he chooses, his wife—is guaranteed an income for life if his annuity is paid for, but his family may get nothing when he dies after retirement. A mutual fund owner is guaranteed nothing at any time, although he can cash in his shares at will. Under the Pru plan, annuitants must wait three years before cashing out during the pay-in period.
- Dividends and any realized capital gains of the variable annuity are not passed on to the policyholder until retirement or until the cash-out term expires; the mutual fund shareowner realizes his benefits immediately.
- The holder of a variable annuity is taxed only when benefits are received, at the straight personal income rate. He has no current tax liability for dividends or capital gains of the fund credited to him. The mutual fund, on the other hand, to avoid federal taxes, must distribute practically all its investment earnings, which are then taxable to the shareowner, as well as any "paper" capital gains converted into cash. The shareowner is permitted to treat capital gains as long-term gains—even if he has not had the shares for the six months usually required.

Mutual fund spokesmen claim variable annuities would provide an unfair tax shelter to purchasers because they would be able to escape paying taxes on all their capital gains during the build-up period. And insurance companies, which will be holding the funds and last year paid about 7.8% tax on investment income, also are exempt from taxes on capital gains.

• **Unfair Rival?**—The claim that variable annuities enjoy favorable taxation is part of a web of complaints that they, as presently conceived, present unfair competition to the mutual funds.

This series of arguments is summed

up by G. Keith Funston, president of the New York Stock Exchange: "If common stock investments—with all the risks involved—are offered without securities regulation, we fear that the results will injure not only the public but the entire securities industry."

• **Stiff State Controls**—Shanks and his supporters say state insurance departments maintain regulations far stricter than SEC's and that the public would be at least as well safeguarded.

The New Jersey Assembly's variable annuity bills would give the state's insurance commissioner power to keep close tabs on variable annuity sellers and set up stiff requirements for their operations. For example, nobody could sell a variable annuity unless he passed a qualifying examination given by the commissioner. Each company, also, would have to submit an annual statement including details of its variable annuity contracts, and the commissioner would be required to file a public valuation of the assets of these accounts. He could also insist that the company get rid of any holdings that fail to meet the commissioner's standards.

Opponents of variable annuities, however, fear that not all states will be so strict as New Jersey, and that some companies incorporated in those states may not be so ethical in conducting their business as Prudential.

• **Market Effects**—Some securities industry representatives worry that once the insurance industry begins issuing variable annuities in volume, the life companies will absorb and "freeze" in their portfolios so much stock—mostly "blue chip" commons—that the available supply would be severely reduced. This would narrow the market, unduly forcing prices up and yields down.

However, NYSE's Pres. Funston has estimated that by 1965 corporations will need about $7-billion a year of new equity capital to expand without too heavy a debt burden. And Shanks estimates that over the next 20 years, variable annuities will contribute, on the average, about $2.5-billion a year to equity funds. Sums up Shanks: "The real problem is to find additional sources of investment funds to fill the nation's equity needs."

• **Close to Climax**—The arguments have raged for several years. The dispute has become more heated as the issue draws closer to a final accounting.

Variable annuities, however, now are being sold to the public on a small scale. Even more to the point: Many partisans in the battle, both pro and con, agree with the judgment of Prof. Salomon J. Flink, Rutgers University economist and economic consultant to the New Jersey Assembly. For all the controversy, Flink concludes, "within a few years variable annuities will be available to the general public." **END**

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Common Sense in Budgeting

This week marks the end of fiscal year 1958—a year that has seen the federal budget swing from a surplus of $1.6-billion in 1957 to a deficit of more than $3-billion. And, in the new fiscal year, the Administration expects the deficit to reach $8-billion to $10-billion, while the Joint Congressional Committee on Internal Revenue Taxation forecasts a $12-billion deficit. This means that the vexatious question of boosting the ceiling on the national debt is already back with us.

Only five months ago the Administration requested—and Congress granted—a $5-billion increase in the ceiling to $280-billion. At the end of May, the national debt was up to nearly $276-billion. June won't show much further rise, but starting in July and running through the first half of the new fiscal year the debt will grow rapidly. Indeed, if the total deficit this coming year is to be $10-billion, it's probable that sometime this fall the government will have to go into the red by considerably more than that—because tax receipts tend to lag well behind expenditures in the first part of the fiscal year.

In the next few weeks, before Congress adjourns, the Administration will have to make its recommendations for raising the debt ceiling. As a matter of common sense, it should ask for enough leeway to make sure that the ceiling will not act as a ruinous and arbitrary determinant of government policies—as it sometimes has in the past.

In the second half of 1957 the debt ceiling forced the Administration to cut back programs needed for long-term national security. And the resulting slash in defense expenditures was an important contributing cause of the recession.

In the period just ahead, the debt ceiling, or a moderately higher one, may be reached at a time when the economy is still slack and when scheduled increases in government expenditures would help keep us on the way to recovery. Renewed pressures to cut federal outlays could choke off spending just when it was most needed.

Even if government spending is not needed as an anti-recession measure, pressure against the debt ceiling will persist for a long time; the demands of national defense make that a certainty. Budget Director Stans sees no "possibility of balancing the budget for several years."

It makes no sense for the Administration to have to keep going back to Congress every few months or so, hat in hand, asking for barely adequate boosts in the debt limit. To do so plays hob with defense and economic policies and exposes the Administration to outbursts of partisan politics.

Many fiscal experts think the debt ceiling is a dangerous anachronism that should be repealed outright. For instance, Ralph J. Watkins, director of economic studies of the Brookings Institution, says that in the past the ceiling reflected Congress' distrust of the executive branch, but now "it reflects even more a lack of confidence in the Congress by the Congress." Watkins finds the desire for economy commendable but considers it false economy "to put hobbles on a great nation." But repeal is obviously impossible in the current session; the Administration won't ask it, and Congress wouldn't give it.

Immediately, however, the Administration should ask for, and fight for, an increase in the debt limit so that it can live with it for at least the next couple of years. The way things look, the increase should be at least $20-billion.

Writing New Labor Law

The Senate has passed, with a single dissent, a bill for moderate government controls over the internal affairs of labor unions.

Whether the bipartisan bill sponsored by Sen. Kennedy (D-Mass.) and Sen. Ives (R-N.Y.) goes on to become law or dies in the reluctant House Labor Committee, important precedent has now been set.

For 11 years, Congress shied away from any major revisions in the Taft-Hartley Act, a law that all agreed was far from perfect. With unions taking a flat-footed repeal-or-nothing stand and with lines drawn taut between forces urging a hands-off policy toward labor and those demanding rigid controls, the basic federal labor law was for a decade a hotly controversial political issue.

It still is controversial and political. The fact that the Senate acted with amazing unanimity is due only to the shocking revelations from Congressional probings into past labor malpractices. Taft-Hartley changes would not have been voted otherwise.

But, the Senate showed itself able to put aside many partisan political considerations last week in the interests of legislation that its leaders consider strong and fair—basic policies designed to meet certain definite needs effectively, but not destructively.

While injecting the "coercive powers of government" into the internal affairs of unions, the Senate under its bipartisan guidance avoided action that could be "overly punitive" or "disruptive of stable labor-management relations."

In doing this, the Senate demonstrated that Taft-Hartley—or any other law—can be amended without political furore if wise guidance in the public interest can be substituted for concern over wide-apart partisan positions.

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